

# **ETHIOPIA MICROENTERPRISE SECTOR ASSESSMENT**

**A Summary Report to Assist Implementation of the  
USAID/Ethiopia Strategy SO3**

**Submitted to:**

**USAID/Ethiopia  
and  
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## Table of Contents

<b>Abbreviations .....</b>	<b>v</b>
<b>I. Executive Summary .....</b>	<b>1</b>
<b>II. Introduction.....</b>	<b>2</b>
II.1. Methodology.....	3
<b>III. Summary of Status of Microenterprise Non-Financial or Business Development Services in Amhara.....</b>	<b>4</b>
III.1. Status of Microenterprise Non-Financial or Business Development Services.....	4
III.1.1. Preface.....	4
III.1.2. Technical Skills Training.....	5
III.1.3. Business Skills Training.....	8
III.1.4. Technology Development and Dissemination.....	9
III.1.5. Market Access and Marketing Services.....	10
III.1.6. Private Sector.....	12
III.2. Status of the Microfinance Industry in Amhara.....	12
III.2.1 Amhara Credit and Savings Institution.....	13
III.2.2. Wisdom MFI.....	14
III.2.3. Meket MFI.....	15
III.2.4. Other MFIs and Microfinance.....	15
III.3. Status of the Amhara Regional Food Security Coordination Office in Relation to MED.....	15
III.4. Gender Implications.....	16
<b>IV. Other Donor Activities.....</b>	<b>17</b>
<b>V. Issues Surrounding MED and USAID’s Involvement in Amhara and Ethiopia.....</b>	<b>18</b>
V.1. General.....	18
V.2. Non-Financial Services / Business Development Services.....	19
V.3. Microfinance.....	20
<b>VI. Recommended Strategies for MED in the Amhara Region.....</b>	<b>22</b>
V.1. Market Demand Led Development Program.....	23
V.1.1 Markets and Marketing.....	23
V.2. Microenterprise Business Development Services.....	26
V.3. Microfinance.....	28

<b>VII.</b>	<b>Next Steps .....</b>	<b>31</b>
	<b>Annexes.....</b>	<b>33</b>
A	Scope of Work for the Amhara Regional State Microenterprise Development Assessment.....	34
B	Business Development Services.....	37
C	Microfinance Institutions.....	53
D	Donor Activities in Microenterprise Development.....	60
E	List of Persons Interviewed.....	65
F	List of Documents Reviewed.....	69
G	Market Demand Process.....	71
H	Feasibility of Potential Micro and Small Enterprises in the Amhara Region, Amhara Regional Strategy Statement.....	74

## Abbreviations

ACSI	Amhara Credit and Savings Institution Share Company
ANRS	Amhara National Regional State
BDS	Business Development Services
BOE	Bureau of Education
BOLSA	Bureau of Labor and Social Affairs
BOTI	Bureau of Trade and Industry
CBE	Commercial Bank of Ethiopia
CEFE	Competency-based Economies through Formation of Enterprises
CIDA	Canadian International Development Agency
CoC	Chamber of Commerce
CPAR	Canadian Physicians for Action and Relief
CRS	Catholic Relief Services
CSTC	Community Skills Training Center, Bureau of Education
DBE	Development Bank of Ethiopia
DELTA	Development Education Leadership Team in Action
DSCP	Dessie Street Children's Project
ERSDF	Ethiopian Rehabilitation and Social Development Fund
FEMSEDA	Federal Micro and Small Enterprise Development Agency
FSCO	Amhara Regional Food Security Coordination Office
FSN	Foreign Service National
GFDRE	Government of the Federal Democratic Republic of Ethiopia
IGP	Implementation Grant Program (USAID)

MDLD	Market Demand Led Development
ME	Microenterprise
MED	Microenterprise Development
MEDaC	Ministry of Economic Development and Cooperation
MFI	Microfinance Institution
MIS	Management Information System
MOLSA	Ministry of Labor and Social Affairs
MSE	Micro and Small Enterprise
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
REMSEDA	Regional Micro and Small Enterprise Development Agency
RTPC	Rural Technology Promotion Center
S.C.	Share Company
SME	Small and Micro Enterprise
SO	Strategic Objective
SOAG	Strategic Objective Agreement
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USAID/G/MD	United States Agency for International Development, Global Bureau, Office of Microenterprise Development
WEPC	Women's Enterprise Promotion Center

## I. Executive Summary

The consultant from USAID Global Bureau Office of Microenterprise Development (G/MD) together with a USAID/Ethiopia FSN and staff of the Amhara Regional Food Security Coordination Office (FSCO) worked together from April 26 to May 13, 2000 on the Amhara National Regional State (ANRS) microenterprise development assessment. The assignment was to survey the status of microenterprise development in the region, identify issues and constraints to rural MED, and opportunities and options for using SOAG funding to support the sector's long-term development. The assessment is to be used to inform the design of an overall results package and specific support under the Mission's SO3 Result 3: *Rural Household cash crop and microenterprise income increased/diversified*.

The data collection was achieved mainly through field visits to stakeholder federal and state governmental and non-governmental organizations (NGOs) in Addis Ababa and the ANRS, rural existing and potential clients, and donor agencies with current involvement or interest in the sector. The team also reviewed relevant documents. Rapid assessments were done of potential partner institutions through site visits in six zones<sup>1</sup> of ANRS, with a focus on activities in target food insecure *woredas*. Institutions visited included banks, microfinance institutions (MFIs), technical and business skills training institutions, technology production and promotion organizations, international and local NGOs, Chambers of Commerce, the Amhara Regional Food Security Office, regional Bureaus of Trade and Industry, Education, and Labor and Social affairs. *Woreda* site visits included Bahir Dar, Ebinat, Dabat, Debre Tabor, Meket, Woldia, Dessie, Kombolcha, and Kemissie.

In almost all cases, discussions and analysis of issues revolved around five major thematic issues:

1. Training support services,
2. Technology development and dissemination,
3. Markets and marketing channels,
4. Rural microfinancing, and
5. Policy and institutional issues affecting the microenterprise sector.

Highlights of the team's findings include:

- Basic rural infrastructure is lacking.
- Access to appropriate technical skills training services is limited and much of it is not oriented to rural microenterprise.
- Access to appropriate business skills training services is limited.
- Access to appropriate market information and market opportunities to promote local, regional, interregional and international trade are limited.
- Microenterprise technology development and dissemination are almost non-existent.
- Private sector development for potential business linkages is in its infancy.

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<sup>1</sup> The six zones visited were Bahir Dar, North Gonder, South Gonder, North Wollo, South Wollo, and North Shoa.

- The production of adapted and cost-effective technologies is inappropriate and insufficient.
- Access to financial services, though rapidly expanding, is still limited, and current practices actually threaten the viability of the industry.
- Until 1996, Ethiopia did not have a microfinance policy. Since then, the sector has suffered from inconsistent or inadequate policies and supervision governing the sector.

To address these challenges, a broad-range of intervention options are offered. Market Demand Led Development (MDLD) is suggested as the guiding framework from which all other specific activities will flow. Developing market opportunities that bring additional money into the community is a priority for initiating the process of micro and small enterprise development (MSSED) in food insecure and other rural areas of Amhara. Options for specific interventions are listed by type of service. Those areas cover the FSCO, non-financial services including market access, technical and business skills training, microenterprise (ME) technology development and dissemination, and input supply and micro-finance. The following sections cover the status of ME development (MED) in Amhara including areas of need, key issues, proposed interventions, and the team's proposal to the Mission on follow-up actions. Annexes contain the scope of work, summary tables of BDS and MFI organizational analyses including highlights of site visits, donor activities, people interviewed, and documents reviewed.

## II. Introduction

In September 1999, USAID/Ethiopia signed a \$35 million Strategic Objective Agreement (SOAG) with the Government of the Federal Democratic Republic of Ethiopia in support of the National Food Security Program. The Strategic Objective #3 stated in the SOAG is “***Rural Household Production and Productivity Increased.***” Efforts to develop and transfer improved food and agricultural technologies will be complemented by activities focused on increasing rural household income from off- and non-farm employment. Program activities are to be concentrated in the 47 food-insecure *woredas* of the region.

USAID/Ethiopia's agriculture and rural focus is premised on the fact 85 percent of the population is rural and that to help restore food security for its population and accelerate its economic prosperity, two mutually reinforcing activities, assistance to the rural microenterprise sector will be required. Per capita income of \$110 ranks Ethiopia as close to the poorest country in the world. It has over 60 million inhabitants. Eighty-five percent of the poor live in rural areas where agriculture, on which three out of every four Ethiopians depend, is of critical importance. Increasing poverty has resulted in greater food insecurity. If economic investments are to have a fairly immediate impact to meet people's hopes and expectations in the rebuilding process, it is critical to increase incomes from off- and non-farm activities as well as agriculture, especially incomes of women who comprise half the agriculture labor force.



### Selected /Statistics for Agriculture/Microenterprise Sectors

Per Capita income	\$100-110 (1997-98)
Economic growth: 1998.	0.5% (GDP) -7.6% (Agric) 10% (Ind.) 8.2% (Commerce), 7.9% (Service)
GDP by sector	Agr. 47%; Industry 11%; Serv. 27% Comm 15%
Percent employed in SMEs and Agr.	NA % in SMEs; 75% in agriculture
SMEs as % of economic activity	40%
Poverty rate	60%
Foreign Exchange Earnings	Coffee 6 5% Hides & Skins 10.1%
External Debt	(1997)
Average Farm size	\$10.1 billion (1997), 1.4 Hectares

Source: The World Bank World Atlas, 1999

The assessment team included James Hochschwender, G/Microenterprise Development consultant from Weidemann Associates, Fitsum Gebrewold USAID/Ethiopia FSN, and Shumiye Abuhay, Amhara Regional Food Security Coordinating Office. They were to assist USAID/Ethiopia to refine the microenterprise development component of its agriculture strategic objective. Work prior to this visit include two assessments of ACSI and collection of relevant documents.

Specifically, the microenterprise sector assessment objectives were to:<sup>2</sup>

- Identify which organizations (government and non-government) are involved in MED planning and implementation in Amhara;
- Identify what organizations are planning or currently implementing MED activities in the Amhara Region;
- Delineate what are the apparent capabilities, strengths, and weaknesses of institutions supporting MED development in the Amhara Region;
- Identify what MED development support services are available, or potentially available in the Amhara Region;
- Based on the answers to the questions above, suggest what is needed to promote MED in the region.

## II.1. Methodology

Information was collected from the following sources: existing studies and reports, government agencies, and interviews with key staff in government, donors, NGOs MFIs, and client and non-client microentrepreneurs in the ANRS.

Complete information on existing MED activities in the Amhara region was not available before the field visit, and so undoubtedly some activities that should have been visited were not and may not even be included in the summaries.

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<sup>2</sup> See the complete scope of work in Annex A.

The approach to the Amhara fieldwork was to first visit regional bureaus and offices of MED activities in the regional capital, Bahir Dar. The team then visited key zonal government, NGO and MFI field activities in food-insecure woredas in each of six different zones in the Amhara region.<sup>3</sup> Due to time limits and the lack of good roads in the region, visits were concentrated along main or secondary roads. However, the majority of the organizations visited do have current and/or planned activities in more rural areas of the visited woredas as well as in other food-insecure woredas. Therefore, the study coverage did reach into the rural areas targeted in the USAID SOAG strategy though the more rural sites of those activities were not observed firsthand. Woredas were selected from the list of ANRS food security pilot woredas. A range of physical environments<sup>4</sup> were viewed to see what different types of microenterprise might be promoted. Two woredas were visited in each of the highland and mid-highland north, one in the central highlands and three in the eastern lowland woredas. They all fall within the 14 pilot woredas selected by the Food Security Unit of ANRS for immediate attention in their draft five-year strategy.

Not all activities in the visited woredas could be visited. An attempt was made to see as broad a variety of activities amongst them as possible. For example, a training program was visited in one woreda and not in another so that a different kind of BDS service or more clients could be visited. Also, organizations that had the largest outreach (number of clients served) in rural areas were intentionally selected as a proxy of institutional and service capability.

### **III. Summary of Status of Microenterprise Development in Amhara**

This section summarizes the team's findings of microenterprise development in the Amhara Region. Since business development services (BDS) are the focus, they will be covered first, followed by microfinance, and then the Amhara regional FSCO itself. The BDS and microfinance sections will also mention some national findings that are relevant to understanding capacities and potential future interventions in Amhara.

#### **III.1. Status of Microenterprise Non-Financial or Business Development Services**

##### **III.1.1. Preface**

The following discussion is predicated on the assumption that the Mission would like to have MED BDS best practices as promoted by the USAID EGAD/MD office applied, as much as possible in the activities it supports in Amhara. Therefore, concepts like market demand, fees for services, and ways of making services more efficient and self-sustaining will be an important part of the following discussion.

The Ministry of Labor and Social Affairs (MOLSA) 1996 study on Agricultural Wage Employment and Rural Non-Farm Employment indicated that 11 percent of rural households in Amhara were engaged in handicraft and related activities, higher than any other region in

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<sup>3</sup> Bahir Dar, North Gondar, South Gondar, North Wollo, South Wollo, North Shoa, and Oromia were visited over a 10-day period.

<sup>4</sup> Highland (above 2300 meters altitude), midland (1800-2300 meters), and lowlands (below 1800 meters).

Ethiopia. It stated that some of that difference may have been due to craft traditions rather than any economic factor. However, the average annual income from handicraft-related activities was only 30 Birr per household. Of those involved in handicraft production, 24 percent were in weaving, 21 percent basketry, 11 percent pottery, and 18 percent combined in building work, woodcarving and blacksmiths (about 6% each). Major constraints stated were a shortage of raw materials—22 percent and insufficient market demand—18 percent. Major problems included a lack of credit, 22 percent, low sales price, 19 percent, overlapping farm work, 18 percent, and high price of raw materials, 16 percent. The majority (63%) sold to rural residents with 19 percent to urban and 14 percent to traders. They concluded from that “urban areas do not constitute an important market for rural handicraft products mainly because of the competition from the superior manufactured goods.” A more appropriate conclusion is that rural producers do not have access to urban markets because they do not know how to design and make products that meet those markets’ demand.

Other non-farm activities engaged 12 percent of rural households nationally of which 29 percent were engaged in food, 71 percent in drinks (tej). Only 0.2 percent of total rural households are engaged in small businesses but of those, 60 percent are in Amhara. The study surmised that the strong preference for farming over non-farm activities implies low profitability of the non-farm trades. Feedback from farmers in this assessment suggested that if they had any extra money, four out of five would put it into a non-farm business activity. The study also pointed out that only 0.7 percent benefited from external support nationally, while 91 percent of those responding in Tigray said they had benefited from support. This suggests that looking into what is being done differently in Tigray might be useful. Complaints in this type of activity were lack of finance, 32 percent, low selling price, 19 percent, and high price of raw materials, 17 percent.

So it is safe to assume that the focus of service evaluation should be on training, access to viable markets, lower cost raw materials, and productivity-enhancing technologies.

### **III.1.2. Technical Skills Training**

The same MOLSA study indicated that less than 1 percent of non-farm skills in rural areas were acquired from formal training, with 43 percent acquired in the household, 34 percent from direct contact with practitioners, and 19 percent from apprenticing. These findings do not speak well for the outreach, and possibly the effectiveness of skills training services existing at that time. Currently, there are five major players in vocational or technical skills training in Amhara: Bureau Of Education (BOE), Bureau of Labor and Social Affairs (BOLSA), Federal Micro and Small Enterprise Development Agency (FEMSEDA), Polytechnic Institutes, and Non-Governmental Organizations (NGOs). Their training can be broken down into three levels as follows.

#### **1. NGOs and BOE Community Skills Training Centers (CSTCs)**

The centers’ services consist of three to four months’ training in particular technical skills. BOE has 75 CSTCs around the Amhara region, which makes it somewhat convenient to many rural people. They trained 4,323 persons last year of whom approximately two-thirds were

males and one-third were females. These training centers are generally in woreda seat towns. Many are not functioning at present, although supposedly they will be in the near future.<sup>5</sup> The quality of this training is likely very uneven, and the team noticed differences from one CSTC to another. But this is likely the most appropriate skill training currently available for rural MEs. Frequently, this training combines technical with some basic business skills training. In addition, in at least one site, the center also combined horticultural and nutrition training. This later training was part of the trainees' exchange, in that they cultivated some of their own food on a plot near the training center while learning about the health benefits of horticulture for their families.

Kebele Committees are generally involved in the trainee selection process. The purpose is to ensure response to need and support individual initiative. How effective that selection process is could not be determined, but it might be worth further investigation.

Some NGOs visited actually channel their training services through these CSTCs by providing trainers, materials and scholarships to participants. Several NGOs, not necessarily in Amhara, seem to have developed materials and processes for a wider range of skills training than the BOE.<sup>6</sup> These NGOs also seem to be offering training more appropriate to ME self-employment and for women; some training appears more market driven. Lutheran World Relief has trained 325 in less than a year in the Bugna and Habru, Kobo areas, of whom 245 were women and 80 were men.

There is a demand for skills training in rural areas of the food insecure woredas. Every MFI visited mentioned unmet demand recorded by loan officers working in rural areas. BOLSA/Dessie has had at least 100 requests for evening training.<sup>7</sup> A cursory survey indicated demand for carpentry, construction, kiosk trade, and higher income yield and horticultural crop farming skills. One NGO in Bahir Dar claimed it has a backlog of more than 6000 requests for training; this NGO draws its clients from urban and semi-urban areas. It is not known what portion of that demand is overflow of migrants from the rural areas looking for better livelihoods than on the farm.<sup>8</sup>

Few training organizations charge for services, but demand might indicate some willingness to pay. A very cursory client survey done on rural site visits indicated some willingness to pay, if financing or deferred payments are available. Links between MFIs and technical skills training are being piloted. The main danger is in not following the MFI's normal client selection process. One CSTC graduate reported that only three out of five blacksmith training graduates started their business with the loan resources received as they completed their training.<sup>9</sup>

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<sup>5</sup> The CSTC in Meket had not provide any training in over a year due to lack of funds, and claimed they would be starting training "soon" although the person interviewed did not know exactly when.

<sup>6</sup> Bahir Dar Medhanealem Orphans and Destitute Family Support & Training Center and the Dessie Street Children Project list netmaking. See Annex B for details.

<sup>7</sup> Specific skills demanded and quantities were not available.

<sup>8</sup> Bahir Dar Medhanealem Orphans and Destitute Family Support & Training Center

<sup>9</sup> ACSI stated they are being careful of who it selects for these type of loans.

Overall, there is a need for material development for skills that are in demand in the marketplace. But great care needs to be taken in identifying that demand. It is important to realize that most rural people are followers, not leaders. One implication of that is that they tend to imitate what others around them are doing in economic activities. But with the very fragile local markets in the food-insecure rural areas of Amhara, providing support based solely on that kind of demand can be disastrous.<sup>10</sup> There needs to be ongoing product market monitoring and labor market monitoring to constantly provide feedback to training institutions for rural MEs. This concept will be discussed more fully in Section VI. Recommended Strategies for MED in Amhara Region.

## **2. BOLSA, FEMSEDA and a few NGOs**

This consists of a 10-month certificate training of Grade 10 or higher graduates, which puts it beyond most of the target population. BOLSA has seven training centers around Amhara that have a capacity for training a total of 1750 people per year. Of those registered in the last training group, only 1352 completed the training.

The training services tend to supply the government, training centers themselves, and regional town wage employment sector rather than the ME rural sector. That may not be all bad as it may get people off the farm and into jobs in rural towns that could provide reflows to rural communities.

Some income from sale of trainee products provides at least some cost recovery.<sup>11</sup> Few of these organizations charge fees for training, and those fees are most often paid by NGOs rather than by the trainees themselves.

Amhara Development Association (ADA) has three training centers, in Teda, North Gondar, Kemissie, Oromia and in Haiq, South Wollo that are training about 440 people per year. They do some outreach to rural areas to recruit trainees who are then sponsored (food and lodging and some monthly expense money). The training that the Dessie Chamber of Commerce is doing is in skills that are not relevant at this time for rural ME.<sup>12</sup>

## **3. Polytechnic Institutes**

These institutes provide two to three year post Grade 12 graduate diploma training with graduates going almost entirely into public or private sector jobs. The training is costly and not necessarily the most effective due to lack of resources and aging equipment, although their trainers apparently have more training experience under their belts than the secondary level trainers. These are not services that rural microentrepreneurs can or should access.

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<sup>10</sup> Note the reported negative impact of microfinance in some local markets in which several loans for animal fattening were given and the result was that the price for those animals went down as much as 50% due to the resultant oversupply.

<sup>11</sup> See Annex C for details.

<sup>12</sup> Office management, basic computer skills, letter writing, and translations.

**The most promising potential partners** are BOE CSTCs and NGOs such as Bahir Dar Lutheran World Relief for actual delivery, ADA and ORDA for getting trainees from rural areas of food-insecure woredas. Another good source for screening trainees would be the Title II partners who are operating in Amhara.<sup>13</sup>

### **III.1.3. Business Skills Training**

These training services are more and more frequently being combined with technical skills training, both in BOE, BOLSA. and NGO training.<sup>14</sup> Services include training in basic economic and business awareness, entrepreneurship, market awareness, pricing, budgeting, bookkeeping, accounting, time management, how to use money, business plan preparation, and other basic subjects. The effectiveness of these services is mixed, as possibly as many as 40 percent of trainees are not actively doing the business for which they received technical and business skills training. But that could be more a question of selection and follow up than the training itself. BOLSA training centers have basic entrepreneurship as a common course that is taken by all students along with applied mathematics. Some NGOs and FEMSEDA provide business skills training alone. (See Donor Activities for GTZ activities.)

A few NGOS (ADA, ORDA, Lutheran World Relief, EOC, etc.) are channeling clients and resources to existing government training venues (CSTCs, FEMSEDA, and BOLSA). In some cases, they are providing materials and trainers. The dynamic needs to be better understood before a decision is made on what USAID/Ethiopia should invest in and how. Another actual and potential venue for business skills training is service cooperatives. Lutheran World Relief is conducting monthly or bi-monthly sessions on market awareness at cooperative meetings where all cooperative members attending discuss trends in agricultural product market prices and opportunities in regional and other non-local markets. This enables the organization to reach large numbers of people at a relatively low cost.<sup>15</sup>

Overall, there is a need for material development for skills that are in demand in the marketplace. Ongoing market monitoring is needed to constantly provide feedback to training institutions for rural MEs, so that business skills training materials can provide them with relevant examples.

**The most promising potential partners** are CSTCs, Title II partners, Lutheran World Relief, ADA, and possibly ORDA. The CSTCs and NGOs including the Title II partners are the closest to the target people. Through the Title II partners' relief and DAP activities, they have both the opportunity and the infrastructure to work with rural poor in Amhara's food-insecure woredas. The food-for-work activities provide an opportunity to assess some rural poor management skills and interest in business skills training. These contacts could also be used to promote training opportunities. ADA's existing training facilities are centralized; this makes it

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<sup>13</sup> EOC, World Vision, and FHI. Food for Work Programs are currently spread across 20 food-insecure woredas in Amhara, although not all of those are USAID partner activities.

<sup>14</sup> Reasons given for this increasing tendency included need for these skills as employees in private enterprise and lack of available paying jobs necessitating self-employment to take advantage of the technical skills training, particularly at the primary level.

<sup>15</sup> 300-450 persons per meeting divided by the facilitator's time plus the time to gather and process the market data spread among the number of cooperative meetings attended in that time period.

more expensive for participants. The decentralized activities of the NGOs either working through their relief or DAP work or through service cooperatives are alternatives to centralized training facilities. However, the training delivery would have to be changed to adapt to the more decentralized activity structure, if these services are to also reach the USAID target population in rural areas.<sup>16</sup>

### **III.1.4. Technology Development and Dissemination**

This is one of the weakest of the four classes of business development and support services that are needed by rural MEs. The two Rural Technology Promotion Centers are sleepy vestiges of what they could be. Government policy changes recently cut them off entirely from ME technology that they used to do and now limits them to only agricultural tools. Managers stated no concern about increasing productivity in production of these technologies and observation raised the question of the level of quality control being applied. The team found very little other ME technology development going on, though FEMSEDA does construct a few improved weaving looms and is reportedly planning on supporting the design and development of a REMSEDA in Amhara in the not-too-distant future. There may be some small-scale technology development going on in NGOs, but the team did not hear of any such activities that had achieved any significant scale of operations.

The lack of awareness of the importance of quality control in the market development of new appropriate technologies needs to be addressed.<sup>17</sup> Poorly produced products in the early stages will kill the market for that technology before it has a chance to demonstrate its value.

Most of the technology dissemination underway seems to be through vocational skills training, particularly in the CSTCs and by NGOs. Tool packages tend to be graduation presents for trainees going into their own business. That is one form of technology (tools) dissemination. Another is in the normal operation of private manufacturing and services enterprises, they look in the market or actually design and develop their own technologies to improve productivity and quality. But that generally does not have application to rural MEs. It does have implications for them when the market demand led development process is applied, (see Section VI. Recommended Strategies under Technology Development and Dissemination).

There is a rural technology development and dissemination model that deserves some consideration in Ethiopia. The ApproTEC model being used in Kenya under a USAID-funded Implementation Grant Proposal (IGP)-BDS grant proceeds with the following steps:

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<sup>16</sup> It should be noted that some of the USAID's Title II partners have relevant BDS skills elsewhere in their organizations, but not currently in Ethiopia. Therefore, resources of those organizations would need to be drawn in from other countries to avoid a more costly reinventing of the wheel in Ethiopia.

<sup>17</sup> RTPC is in the process of trying to manufacture 50 Super Money Maker manual irrigation pumps based on specifications in an ApproTEC manual. Experience has taught ApproTEC that assembly jigs are necessary for production of high quality, dependable pumps. RTPC had no idea and has been given ApproTEC contact information so that they can avoid producing faulty pumps. A private sector company in Addis, Saldana, bought a Super Money Maker pump in Kenya and has tried to copy it. Unfortunately the pump they produced can only lift water 3 meters instead of the 6-7 of the ApproTEC pump, and it cannot push it uphill at all, which the ApproTEC pump can up to 14 vertical meters. And yet it is being represented to the public as the ApproTEC pump.

1. Identify new market/business opportunities through sub-sector analysis to identify market demands in terms of material availability, skills and technologies.
2. Technologies required to start such enterprises are developed/adapted/designed along with standard manufacturing techniques, manufacturers are trained, and business information packages are developed.
3. Promotion, Information and Marketing are needed to introduce the new product into the market. What is being sold is a business opportunity, and it can take some selling. The result is increased incomes and employment.
4. A database of all investors in the technology is maintained to provide feedback for improvement of the technology and impact assessment.

The investment needed for existing technologies is for the startup capital for the wholesaling function, establishment of efficient high quality production,<sup>18</sup> and the market development costs. However, there would have to be demonstrated demand. One starting point would be a technology that would go along with the market demand led development described below. The process could also start with selection of sub-sectors for analysis out of the list of 31 potential MSE businesses by the FSCO in its food security strategic plan<sup>19</sup> or using the SIDA RTC Outreach Study done in 1998.<sup>20</sup> Local and international consultants could be used to implement two to three sub-sector analyses.

**The most promising potential partner** appears to be the Amhara REMSEDA when it gets going, although FEMSEDA seems to have the greatest potential of existing organizations because of its more commercial orientation. However, this may be an instance in which an international partner needs to be brought in to develop local businesses to produce and market productivity enhancing technologies. Another area in which USAID's Title II partners could play a pivotal role would be in the marketing of energy efficient stoves in food-insecure rural areas. This could have a multiple effect of improving soil fertility by reducing demand on cow dung for cooking fuel, thereby increasing farmers' returns from their land.

### **III.1.5. Market Access and Marketing Services**

In the research done to date in Ethiopia on markets and marketing of rural ME products, it appears that the emphasis has been on answering the question, "What products might be bought locally?" The team visited rural towns with marketplaces, a location where people came to sell and buy animals, farm produce and other goods, but many of them were informal, barter is common, and the purchasing power in them is small. Unfortunately, the team also heard a few too many stories of how fragile those markets are, with several micro credit loans being enough to provide an oversupply of products that had the effect of cutting prices by as much as 50 percent.<sup>21</sup>

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<sup>18</sup> To the extent possible, the production should be in the private sector so that an incentive system can be applied and healthy competition fostered.

<sup>19</sup> They are listed on page 95 of the Amhara National Regional State Integrated Food Security Program.

<sup>20</sup> SIDA tried to work with RTPC in 1998 on technology development and promotion but has not funded anything to date. They requested a statement of the RTPC vision and direction, but have not received it, confirming the assessment analysis of a lack of leadership and direction in the organization.

<sup>21</sup> Microcredits for animal fattening given by ASCI have been identified as having that impact in more than one local market.



As part of the Amhara National Regional State Integrated Food Security Program, a study was done that identified 31 activities that are or might be done to increase rural incomes, and their relative feasibility. Not all activities were appropriate to rural areas in food-insecure woredas and some of the results are questionable. “Most likely feasible” activities included carpentry, masonry, compressed concrete block, mud block, gum production, honey processing, beehive making, and retail trade. “Just feasible” activities included carpets, wood works, rope chairs, brick making, spinning, leather products, horn processing, tailoring, embroidery, sliced pulses and cereals, malt making, aggregate and sand production. “Low feasibility” activities included some of the more common microenterprises in rural areas such as pack animal transportation, cart, pottery, tannery, and cut stone. “Not feasible” activities included many activities for which the most training in being delivered such as blacksmithing (CSTCs), weaving (CSTCs and FEMSEDA), repair and maintenance (BOLSA and Polytechnics), and bamboo works (CSTCs and FEMSEDA). It was not clear on what basis these studies were done, but it would only make sense if the market analysis in them was limited to local markets because of the existing saturation of local markets with the “low” and “not feasible” products. Part of identifying viable market demand is taking feasibility factors into account.

Most organized ME product marketing was being done by skills training organizations as a means for offsetting costs rather than as a primary function for developing microenterprises. FEMSEDA sold B200,000 of trainees’ products last year.<sup>22</sup> The street children-training project in Dessie sold B 45,000 worth of goods. In both instances, the producers did not receive a penny, so these activities are not really viable market access for microenterprises. FEMSEDA does provide a display space for graduates who have gone into their own businesses, and any sales proceeds do go to the producer. FEMSEDA’s marketing efforts are somewhat passive, so these sales did not amount to what they probably could have. A dairy association in Dabat profitably processed the milk of about 33 farmers into butter and cheese, though it was clear that its principal equipment costs were not being amortized.<sup>23</sup>

There are several reasons that explain this lack of market links for non-farm products. First is Ethiopia’s traditional insularity. Second, the government’s viewpoint is that agriculture should be the engine of Ethiopian economic growth. This attitude reflects a viewpoint that precludes much non-farm business development in rural areas. Third, the rural people are conservative and risk averse, particularly with the precarious economic conditions and lack of support for private enterprise. In the case of rural Ethiopia, and particularly in food-insecure woredas in Amhara, there are very few local markets even if there is a need for a particular product. Little money is available in those markets for anything but food and shelter, the barest necessities of life. So the strategy of promoting production for purely local markets has a weak foundation as the generator of increased incomes for rural households. Looking at the larger towns in Amhara, such as Bahir Dar, Gonder, Dessie Woldia, Kobo, Sekota, and Nefas Mewcha, there is some demand. However, cheap imports of clothing, simple farm tools and other products in demand provide serious competition to what can easily be made in rural households or by rural microenterprises. However, these markets’ potential needs to be explored further.

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<sup>22</sup> FEMSEDA is located in Addis Ababa, and so should not be construed as marketing products of rural producers.

<sup>23</sup> Their equipment was donated. They had made enough profit to invest in additional equipment and had a reserve of B5,000 after only six months of operation. It turned out they were competing with individual farmer producers, so it was not clear what the net effect on rural household incomes this activity had.

**The most promising potential partners** are the Women's Enterprise Promotion Center (WEPC) and Women's Affairs Office in the Office of the President. They need to be explored further to determine the extent to which either can effectively serve rural people in Amhara. The WEPC could be developed to serve as the exporter for rural producers' products that have been linked to foreign markets. The other links in the economic chain would need to be identified and supported as appropriate. In most cases, the most appropriate organizations would identify themselves because they would be manifesting entrepreneurial behavior, looking for markets and supplier customers to satisfy them. Here again, some existing Title II partners have experience in other countries in linking rural producers with more lucrative regional or export markets. However, existing human resources in these organizations are not oriented to this service.

### **III.1.6. Private Sector**

The Chamber of Commerce in Bahir Dar recently closed. The Chamber of Commerce in Dessie has 150 members and trains about 30 secretary/office managers per year in a certificate program. It also tries to be a liaison between banks and delinquent borrowers. Currently, their services do not reach down to microenterprise or to rural areas. However, they are open to serving as a business linkage for ME if that were to become needed. This should be further explored in terms of market linkages activities.

## **III.2. Status of the Microfinance Industry in Amhara**

### **Overview**

In general, microfinance is in its ascendancy, with rapid expansion within MFIs in the Amhara region and an increase in the number of MFIs. Nationally, there are 15 registered MFIs, with 3 registered in 2000 and one more in process. MFIs are filling the gap for financial services in rural areas that CBE, DBE, and commercial banks are unable and/or unwilling to fill. Regulation provides a framework for MFIs and supervision is benignly negligent out of lack of manpower and other resources to be otherwise. Only four to five MFIs are reporting with any regularity.

To date no MFIs in Ethiopia have reached full cost recovery; this means that they must be subsidized to stay in operation and are continually de-capitalizing unless they get more donations to shore up their balance sheets. It is not clear to what extent the boards of these MFIs are aware of the dangers that lie ahead. What is lurking in the shadows is the mandate to only lend in rural areas and the heavy emphasis on agricultural lending. Unfortunately, microcredit is not agriculture lending. The difference between microcredit and agricultural credit is the regular, at most, monthly repayment under microcredit and the balloon payment required with agricultural credit. Microcredit in rural areas can be an incentive for diversifying household incomes. By forcing regular repayments, families are forced to come up with income sources other than farming. This contributes to food security as well, by generally increasing family income from non-farm and off-farm income activities.

There is a lack of any safety net for MFIs' large agriculture loan portfolios<sup>24</sup> that are high risk. In some instances, the regional government may be guaranteeing seed and fertilizer loans, but it is not clear where those governments would get the money needed to cover heavy defaults that would result from widespread drought. It is also not clear whether they would be willing to actually pay money to the MFIs to honor those guarantees or if, instead, they would insist that the credit be rolled over. The later choice would likely cause a severe shortage of loan funds, which could have further adverse effects on loan repayment rates.

The heavy dependence on expanding savings deposits to be able to expand the loan portfolio is another danger in that it increases their costs (interest plus the cost of administering the savings accounts) while the MFIs are still losing money. Most MFIs in Ethiopia are losing money every year and are not well enough capitalized to be able to access sufficient other sources to meet the increasing high demand level for even small loans. Until they start charging more realistic interest rates on loans, the pressure to mobilize more expensive savings funds will continue.

MFI regulation and supervision needs support and guidance on how MFIs can efficiently and effectively monitor and control the industry while supporting healthy growth. AEMFI needs to play a greater role in the self-regulation of MFIs by establishing agreed-upon industry standards, facilitating training and other organizational development, and monitoring member performance. AEMFI appears to be the most appropriate organization to study impacts of specific regulations and supervisory policies and practices, and lobby the GFDRE for any needed changes. Indications are that the NBE may not be as intractable as many think. The NBE merely needs the ammunition to formulate and get through the legislature improved microfinance laws.

### **III. 2.1 Amhara Credit and Savings Institution**

By far the largest MFI in Amhara and second only to Dedit in Tigray in Ethiopia, Amhara Credit and Savings Institution is also the most sophisticated MFI in Amhara. It has 140,000 loans outstanding and 190,000 savers. It has a high on-time repayment rate of 98 percent. It also has a high concentration of its loan portfolio in agriculture loans (over 70%) with balloon payments.<sup>25</sup> ACSI is rapidly trying to upgrade operations and systems, although they admit to having a ways to go. It is apparently very efficient (7% operations costs as percent of Loan Portfolio), but even with subsidies of lowly paid and hard working staff (10 hours a day 6-7 days/week), they have not reach operating self-sufficiency. Interest rates/fees need to be adjusted to bring revenues in line with expenses. Staff productivity is not as high as it could be. Loans per credit officer are about 200 versus an industry standard of 300 minimum and 400 in the better ones. ACSI has been aggressive on mobilizing savings, which now amount to 60 percent of the loan portfolio, but is still constrained in its lending by shortage of funds. Evidence of that is the fact that they limit the maximum loan size to about \$300 (B2,500), which is far below what a successful expanding microenterprise needs to grow to start adding employees.

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<sup>24</sup> ACSI's loan portfolio is 70 percent in agricultural loans with balloon payments, some of which have been scheduled and carried over from the previous year when drought or other calamity has prevented repayment.

<sup>25</sup> Entire principle amount is paid in one lump sum at the end of the loan. In some instances even interest payments are deferred until the end of the loan period.

Soft loan capital (\$10 million or more) would bring average cost of funds down. The bank also needs equity capital for reserves in case its agriculture loan portfolio is hit with severe weather. But neither of these should be provided until it has increased earned income to exceed total operating costs. The institution has achieved whatever economies of scale it is going to. Now it needs to either get more efficient or raise prices.

MIS system development should be predicated on reviewing every aspect of the operations to ensure that it is as efficient as possible and eliminating any and all unnecessary actions/steps and any duplication before any software design is done.<sup>26</sup>

#### **Issues:**

1. Impact of lending on supply in local markets in anticipation of adverse impact on loan repayment.
2. Concentration in agriculture loans - Providing adequate reserves for agriculture loan losses versus microcredit loans.
3. Staff development – There is a need for standard staff training system as much of it now is on-the-job training that leaves too much room for alteration of policy and procedures.
4. Management is ready to increase interest rates, but the board may not be.

#### **III.2.2. Wisdom MFI**

Wisdom MFI is not a very big MFI (4845 loans and a \$400,000 loan portfolio). It was started in 1998 from the World Vision's microfinance activities. Visits to headquarters and the sub-branch in Kemissie revealed that the sub-branch has altered the solidarity group lending methodology that they were supposed to be using. The sub-branch staff are requiring that people organize themselves into groups whose members are doing the same economic activity, such as petty trading, or animal fattening, etc. Client feedback indicated that they wanted smaller groups because they could not get people they trusted to agree to invest in the same economic activity. In fact, Wisdom does not require groups be formed in this way. Staff training consists of 5 to 10 days of orientation to Wisdom and its technologies. The rest is on-the-job training. Management appears careful and bureaucratic. They charge a 2 percent fee on top of the 12.5 percent interest rate, which shows some awareness of the need to charge higher rates to cover costs, although this still does not cover their costs. The sub-branch office reported more than covering its operating costs, but that did not include branch and headquarters costs.

#### **Issues:**

1. Staff development - A standard staff training system is needed as much of it now is on-the-job training that leaves too much room for alteration of policy and procedures.
2. Impact of their lending on supply in local markets in anticipation of adverse impact on loan repayment.

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<sup>26</sup> This is called "re-engineering operations" and can save the cost of the MIS system. CARD Bank in the Philippines did this and managed to reduce the time it took staff to do their jobs by more than 30 percent. This meant that their staff no longer had to work until 8-10PM each night, on Saturdays and sometimes even on Sundays for no extra pay.

3. Constrained by welfare/relief attitude and practices of funding NGO.

### **III.2.3. Meket MFI**

Meket MFI just recently registered and is just getting started from the microfinance activities of the NGO SOS Sahel. It is being advised by Malcomb Harper and his wife,<sup>27</sup> who were recently here for a couple of months helping the MFI get its loan repayment rate back up to 89 percent. As the new systems were not all in place, little information was available. It appears it will need substantial assistance to come up to operating standards that would allow any chance of viability.

### **III.2.4. Other MFIs and Microfinance**

The team visited four other MFIs in an attempt to find differences in practice and/or loan methodology. SPFI charges 16.5 percent declining balance interest, but pays 7 percent on savings and has about 3,000 clients at present. CRS is forming an MFI that will use a village banking approach versus the Grameen group solidarity model that is the only one functioning in Ethiopia at present. The basic difference is that village banks take on more of the administrative burden and can thus reach further down the economic scale, while covering costs with interest earned. IF their model proves successful, then it might be worth USAID investing in it being extended to the Amhara region.

Several NGOs in Amhara<sup>28</sup> are channeling loan funds to borrowers through service cooperatives, however, most of that lending goes to agricultural activities. One of the valuable functions of microcredit in rural areas is to encourage rural households to diversify their income-generating activities beyond primary agriculture. However, when a cooperative only provides credit for agriculture inputs, seed and fertilizer in particular, then there is no encouragement to diversify at all. In fact, people are further limited in what they can invest in by such lending programs as those programs often base lending on savings from the same locale.

### **III.3. Status of the Amhara Regional Food Security Coordination Office in Relation to MED**

The FSCO has some exposure to microenterprise development, but most best practices in microfinance and business development services are something new to Ethiopia. Also, FSCO staff have to coordinate at least 10 different types of programs related to food security.<sup>29</sup> The Regional Food Security Strategic Five-Year Plan mentions microenterprise development but gives very little detail as to what specific activities need to be implemented. The FSCO is going to have to effectively coordinate the activities mentioned herein. Therefore, there is an urgent

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<sup>27</sup> Malcomb Harper and his wife are best known for writings on business training services, "Consultancy for Small Business." He retired from teaching at Cranfield University in England and moved to India where he and his wife reside.

<sup>28</sup> Lutheran World Federation, Oxfam GB, and possibly others.

<sup>29</sup> Besides MED there are water resources, pest and disease control, migration and/or resettlement, women, appropriate technology, livestock development, rural markets, social services, rural credit, and institutional capital.

need to expose FSCO staff and managers to both microfinance and BDS best practices. This will involve the following activities:

1. Support to FSCO in expanding the MED section in the regional food security strategic plan.
2. Participation in microfinance external study tours and in-country microfinance best practices workshops.
3. Participation in MED business development services external study tours and in-country MED-BDS best practice seminars and workshops.
4. Provide some logistical (transport) support and/or office equipment support.

### **III.4. Gender Implications**

Although some of the following points have been touched upon above, this section will deal more directly with the state of BDS services as they relate to women in Amhara.

There was not sufficient time to investigate the degree to which gender issues are being addressed in the MED in Amhara. However, BDS and MFI records indicate that they are reaching large numbers of women. The ACSI portfolio is 40 percent in the name of women. That does not mean, however, that those services have been geared to women's special needs. It does imply that women have some access to financial services. Some training programs are reaching some women. Women are a small percentage of the trainers in BOLSA training centers, although in CSTCs that percentage appeared to be higher. BOLSA allows women in any of their skills training activities. They claim that women's involvement in skills training reflects the access that they have to jobs once they complete that training.<sup>30</sup> There is no difference in the training process used with women and men, except perhaps by individual trainers such as for embroidery in CSTCs.

As mentioned above, kebele committees are actively involved in trainee and borrower selection process. However, it is likely that attitudes towards women's access to financial and non-financial services depend on the key personalities on those committees. More detailed surveys of this aspect of the ME services are warranted before final design of services is completed.

The Prime Minister's Office has the Office of Women's Affairs which channels support to women's training and economic activities support through offices and woreda level committees. Reportedly, Women's Affairs Officers do participate in the woreda committee selection process of both microcredit borrowers and training participants. The team did not have a chance to meet with any woreda level committees to investigate training and other activities directly.

The Women's Enterprise Promotion Center (WEPC) based in Addis Ababa has the mandate to extend its services to women producers nationally, but does not currently have the resources to do so. The team visited the WEPC in Addis Ababa and found that their focus is on

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<sup>30</sup> Women tended more towards training in electrician, electronics and construction trades than say auto mechanics and carpentry.

crafts training and marketing. The quality of products appeared fairly good. Unfortunately, they are not market demand led in product development in that women produce what they think will sell and then try to sell it.<sup>31</sup> The management agreed that they need to shift to producing for orders rather than for inventory of which they have plenty. At present, the WEPC's activities are focused in and around Addis and do not reach into the Amhara region. However, they could be developed into an outlet or a marketing link for the Addis and export markets. Further investigation is warranted on using the Women's Affairs Officers.

## IV. Other Donor Activities

Annex D contains a summary table of donor MED activities in Ethiopia, both current and planned. There are a few of note.

**GTZ's** Competency-based Economic Training and Education (CEFE) could be the best skills training currently available in Ethiopia. It is being piloted through FEMSEDA, which is providing training of trainers as well as the CEFE training itself. The demand has risen to 630 trainees in Addis Ababa in the last nine months alone. Other MFIs and NGOs are talking about investing in the training. GTZ will be supporting FEMSEDA and assisting in the establishment of regional micro and small enterprise development agencies (REMSEDAs) in Amhara in particular. GTZ is also in the second phase of supporting Chambers of Commerce, both in Addis Ababa and Amhara, although the GTZ representative admitted that progress is slow.

The **European Union** is talking about a project that will provide assistance to NBE for upgrading its MFI regulatory and supervisory capabilities. That project has not yet been funded, but it should not deter USAID/Ethiopia from exploring what it might do in the near term in that area.

Swedish **SIDA** had a project to support the expansion of the RTPCs in Amhara, and, in particular, in the area of ME technology. SIDA did the study for it in 1998. Subsequently, the organization has been waiting for RTPC to develop a strategy for implementing a program based on those findings. Any ventures into that agency should be coordinated with SIDA.

The **World Bank** under its Social Development agenda and through the ERSDF has signed an agreement for an \$8 million women's enterprise promotion project. This project will grant funds to women's producer groups for equipment, tools and supplies to upgrade their production capabilities. The reflows from those grants can be used to either invest in additional equipment, etc. or to lend to members for other income-generating activities. This would be in direct competition to MFIs. For that reason, this project is supposedly only supposed to function in areas where there is no MFI functioning. Therefore, the project activities should be monitored to ensure they do not undermine self-sustaining microfinance.

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<sup>31</sup> One example of that approach was the production of carpets in a particular design that had been suggested by a Turkish person who had visited the WEPC shop. The manager explained that they were still waiting for that person to come back and give them an order for those carpets.

The **World Bank** is also conducting a Rural Finance Sector Study, lead by Renee Chao Beroff that will hopefully address some of the agricultural credit and MF issues mentioned above. The consultant was able to provide inputs in the study's design stage. The study could lead to a larger World Bank project in rural credit which, again, hopefully will address the gaps in the agricultural credit system in food-insecure woredas without further burdening MFIs with agriculture credit.

**PACT/Ethiopia** is providing institution building and enabling environment support to MFIs and NGOs; feedback on its services was positive. The institution building consists of strategic planning, board development, proposal writing training, financial management training, equipment, and software. The organization also provide grants of up to \$50,000 per institution for project activities. It works with ACSI, ADA, ORDA, and JACH in Amhara and sent a group of MFI and government officials on a study tour to Washington, DC, Peru, and Bolivia in an attempt to influence MF policy. The organization also supports education, food security, rural development, and democracy and governance activities. Most funding for these activities comes from USAID. If PACT is to play a significant role in institution building in MED in Amhara and elsewhere in Ethiopia, it will need specific additional support from USAID for it.

The **UNDP MicroStart** project, \$2 million for assisting seven smaller MFIs, was never approved by the Ethiopian government, reportedly because of its focus on capacity building and its lack of a local champion to get it through the approval process.

## **V. Issues Surrounding MED and USAID's Involvement in Amhara and Ethiopia**

### **V.1. General**

**War** –There remains questions as to USAID's position with regard to continuing development support to Ethiopia with continuance of war with Eritrea and the war's cost on availability of GOE funds for development.

**Modalities of Implementation** – Per the SOAG the amount of money given by USAID to go into Amhara region will not be deducted from FGOE budget for the region because it is for food security purposes. However, it is not known what the regional government will do about allocation to zonal and municipal governments as USAID money goes into a particular zone, municipality or kebele.<sup>32</sup> The question remains what mechanism USAID/Ethiopia can use to channel funds to zones in the region without the zone losing its regional funding and minimizing the attendant consequences in timeliness of fund flows and reporting procedures. Part of the issue is what case will need to be made that MED is a food security activity and that lessons learned from activities in one zone will be transmitted to another food-insecure zone. Another

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<sup>32</sup> Sister Cites Program tried to donate \$60 million to several cities in Amhara, but reportedly because of the fairness and equality amongst the regions because of the GFDRE mandate, that amount was going to be deducted from the federal government's allocation to Amhara. It is not clear that this was just a federal issue, or if it was also a problem at the ANRS level as well as the money was only going to certain municipalities. The result was that the funding and program did not occur.



part of the issue is getting projects that focus on capacity building and using external consultants approved by the government by having a competitive contracting process that allows local organizations to participate. The final part of this issue is how USAID can encourage its Title II partners to actively participate in non-emergency, food security activities, including MED.<sup>33</sup>

***Support to the Amhara Regional Food Security Coordination Office*** - USAID SOAG activities are to be implemented through or in coordination with the Amhara Regional Food Security Coordination Office. Staff in that office has limited exposure to MED and its relation to food security. The issue is the extent to which USAID/Ethiopia will provide support to upgrade FSCO staff skills.

## **V.2. Non-Financial Services / Business Development Services**

***Channeling of Resources to Support Vocational and Business Skills Training*** – BOE and BOLSA centers provide most of the infrastructure for microenterprise training services in the Amhara region. Foreign and local NGOs channel clientele, trainer, training materials, and financial resources to these centers rather than establishing their own centers. The same NGOs are following up on the training services and providing feedback, revision of materials, and training of trainers. The issue is how can USAID best channel resources to the vocational and skills training system in Amhara.

***Demand-Driven Training Services***– BDS service providers have either been governmental or NGO attempts to alleviate poverty. The government has done studies that have identified specific vocational skills that seem needed in large quantities in rural areas. Donor funding has often driven development of vocational skill training. Bi-lateral donors tend to focus on particular skills, such as the Spanish on automotive mechanics, the Italians on building construction, and Germans on metalworking. This results in supply-driven vocational training services. For obvious reasons, there has been little or no private sector involvement in the vocational skills training process. Links to external and internal markets should drive the selection of skills training subjects and curricula. The issue is whether an effective collaboration between the governmental training services, the private sector, and NGOs can be well enough established to create demand-driven dynamic BDS.

***Charging for Services*** - Generally, BDS providers have not considered charging any kind of fees for services. It is assumed that USAID/Ethiopia is trying to develop viable, market-driven BDS services that are capable of reaching the rural food insecure poor. MED “best practices” call for BDS services fees that are efficient and effective enough for clients to be able to pay at least a portion of the delivery costs. Financial necessity has prompted a few service providers, both governmental and NGOs, to look for ways to generate income directly from their service operations. Vocational training services have taken to selling trainee products produced during their training. That has provided as much as 5 percent of annual budgets. However, there are two issues here. One is whether USAID can convince the GFDRE and its agencies such as BOE and BOLSA to incorporate some kind of cost sharing or fees into their training systems. The other is

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<sup>33</sup> The Title II partners have focused mainly on emergency relief aid, although these organizations elsewhere have been active in MED (e.g., FHI’s Credit with Education”, CRS’ village banking, etc.).

whether NGOs can be convinced that some kind of fee system is needed to be able to extend BDS to many more of the target population in the face of other donor grants for no-fee services.

***Appropriate Training Materials*** – Some training materials, such as the Delta training approach used by Lutheran World Relief and others in Amhara, use highly participatory and adult learning methods. However, it appears that the effectiveness of much of the business skills training being delivered could be improved by more focus on the mindset shift that allows participants to recognize their own potential develops the “soft” business skills<sup>34</sup> before “hard” skills (business planning tools, etc.) training is embarked upon.

***Non-Existence of Market Access Services*** – One problem that has already appeared as a result of microfinance and other MED services in rural areas is changes in local markets that adversely affect the users of those services. When many loans are made in one area for animal fattening, the result is a glut on the local market and a corresponding drop in prices that eliminates the expected economic return. The issue is threefold. One, whether or not MFIs and non-financial services can be educated to the dynamics of the local and regional markets sufficiently to minimize the frequency of these kinds of situations. Two, whether Ethiopians will be willing to looking exploring markets beyond their immediate local, regional and domestic markets. Three, whether market access linkage services for rural poor non-farm products can be developed quickly enough.

***Non-Existence of Rural ME Technology Services*** - The Rural Technology Promotion Centers used to produce non-farm MSE and agricultural tools and technology. As of now, their mandate is to only produce agriculture technologies. The RTPC lacks the leadership necessary for effective development, production and dissemination of appropriate rural technologies, be they MSE or agricultural. On top of that, there were no NGOs found that are systematically working on rural technology matters. The issue is what organizational mechanism can be used or put in place to focus on MED technology.

### **V.3. Microfinance**

***Regulation and Supervision of MFIs*** – The National Bank of Ethiopia issued its Proclamation No. 40/1996 that covered the licensing and supervision of MFIs. Subsequent to that proclamation, the NBE issued several directives relating to more specific aspects of MFI operations, management, and reporting. A few changes have been made such as the removal of the interest rate cap. As currently formulated, the regulations unnecessarily limit MFI operations and financial products. In addition, it is clear that there are inadequate resources, particularly technically qualified personnel for the supervision of MFIs. The issue is the extent to which the GFDRE is willing to consider revising the MFI regulatory and supervisory framework to enhance the industry’s growth and viability and support the upgrading of the NBE Supervision Division.

***Governance of MFIs*** – The EPRDF is prominently represented on the ACSI board. Though this is currently a strong point, it could become a liability with any change in the party in power. Also, it has the potential for introducing loan policy mandates that could threaten the viability of

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<sup>34</sup> Observation, communication and questioning skills.

the MFIs so influenced. It is unrealistic to expect this pattern of governance to change in the near future. And this point is not made to suggest any impropriety on the part of those party leaders in their execution of their MFI governance functions. However, for the long-term development of a strong microfinance industry in Ethiopia there needs to be, to the extent possible, a de-politicization of MFIs.

***Quotas for Agricultural Loan Disbursement*** – In the past, the Ministry of Agriculture and regional governments have issued quotas to financial and other institutions for distribution of fertilizers, seeds and other agriculture inputs. This has exerted pressure on institutions including MFIs to make loans they might not otherwise have made, potentially forcing them to violate their own internal policies on client selection. This is a threat to the integrity and viability of MFIs. The issue is whether this type of quota system will continue to be applied to MFIs in the Amhara region.

***Agricultural Credit versus Microcredit*** – Both at the regulatory and institution levels, there was a merging of agricultural lending with microcredit. Microcredit has several best practice principles that differentiate it from agricultural credit. One of those is frequent repayment. Agriculture credit, by virtue of its cash flow cycle, precludes weekly or even monthly payments. The purpose or function of microcredit in rural areas in other countries has been to encourage rural households to diversify their income sources beyond agriculture and livestock. In Ethiopia, from its inception to present, microfinance has been equated with rural finance, and particularly with agricultural credit to rural poor. This adds significant risk to the MFIs' portfolio management. MFIs in Ethiopia are already undercapitalized. Increasing their portfolio risk without some kind of financial safety net will only ensure that they will encounter significant loan losses due to weather or other natural phenomenon. Because of their thin capital base, their depositors will be threatened with the loss of their savings assets. That would likely bring down the entire microfinance industry.<sup>35</sup>

***Pricing of MFI Products*** - MFIs realize that they need to charge for their financial services, although most are not charging enough or are not efficient enough to fully cover their costs. This, in part, stems from their emergence out of a need for a social safety net, or a more welfare than development mentality. Exposure to microfinance best practice and financial necessity has educated some staff to look for ways to increase their income to cover costs. But the issue of charging interest and fees adequate to cover efficient operating costs needs to be taken up with each MFI's board of directors if the industry is to ever become viable.

***Funding of MFIs*** - The larger the MFI, the larger the portion of funds available for lending is coming from savings deposits. These cost the institutions 6 percent interest plus the cost of managing the savings account's records and transactions. This is very expensive given the relatively low interest rate being charged on loans. Using a higher and higher percentage of these expensive funds makes it more difficult for MFIs to attain full cost recovery. The issue is finding

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<sup>35</sup> One of the fundamental principles of the Grameen Bank microcredit model is frequent repayment. In the last two years, the Bank violated its own policy on that, and made a significant number and amount of term loans for agriculture production with balloon payments. When a serious monsoon destroyed the crops of a significant portion of those agriculture loan clients, Grameen was faced with a serious liquidity crisis that brought its lending operations almost to a halt, which in turn threatened its entire bank operation.

sources for low cost (concessional rates of 1 to 3% interest), long-term (at least 10 year if not 20 or even 30 year) loans that will enable MFIs to viably fulfill their original mandate of providing low cost financial services to rural poor.

***New Products and Services*** – Most MFIs are offering only one or two loan and savings products. Experience in other countries and feedback from MFI clients in Amhara has indicated that there is significant demand for other savings and loan products. The issue is how to support MFIs to introduce new products/services in the face of attitudes that experiences elsewhere do not apply to Ethiopia.

***MFI Staff Development*** - Staff and management development is key to viable development if the microfinance industry in Ethiopia. Plans are underway, supported by AEMFI and its members, for the establishment of a diploma training program at the Mekelle University. Funding and materials are needed. International microfinance best practices need to be made part and parcel of that training, at both management and staff levels. The pride and resultant insularity of the Ethiopian microfinance industry to date has prevented much outside input, with some adverse consequences as noted elsewhere in this report. However, AEMFI and MFI management increasingly recognize the need for these inputs. USAID is the leader in the development of microfinance and related training.<sup>36</sup> USAID's SOAG states a focus on the Amhara region. Mekelle University is in Tigray, where the training would be delivered. The issue is how USAID can support this effort under its existing SOAG.

## **VI. Recommended Strategies for MED in the Amhara Region**

Fundamentally, the market demand led development (MDLD) approach is recommended for USAID to use as the framework for non-financial business development services in Amhara. Rural households need a way to produce for financially rewarding markets that can handle a large infusion of small producers. This requires creating products for and access to external markets. The market access will then drive the implementation of all other services including lower cost and reliable input supply, technical and business skills training, technology development and dissemination, and business linkages. The multiplier effects of new money coming into rural communities should not be underestimated for the other business development it will generate. Microfinance has its own set of needs as it presently is serving much more than the rural ME sector and its own set of issues to be addressed and needs to be met. The market demand led process involves a tried and tested series of steps to build sustainability and capability among rural producers. Traditional approaches are much less effective at creating off- and non-farm income-generating activities that generate lasting<sup>37</sup> increases in family incomes in rural areas and thus contribute to viable food security.

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<sup>36</sup> USAID/Bolivia, using the MicroServe contract, has supported the development of the first microfinance specialist diploma program outside of the US. Dr. Claudio Gonzales-Vega of Ohio State University led the curriculum and materials development. This one-year program includes fieldwork in an MFI. The model being discussed for Mekelle University is similar to the Bolivia model.

<sup>37</sup> OCEPA is an example of a market demand led crafts project that continues to function and employ hundreds of indigenous people in low productivity farming regions in the Andes Mountains of Ecuador after more than 30 years since its inception.

Using the MDLD approach allows the Mission to concurrently support regulatory and supervision, capacity building or balance sheet strengthening of MFIs. Options for specific and general activities are detailed below. It also allows support to technical and business skills training systems, technology development and dissemination, and other information or business linkages services that are not specifically connected to the Mission-funded MDLD activity. It merely suggests that those activities should be guided by the market for ME products rather than just the immediate demand for the services. Additional specific and general activities in those areas are detailed below.

The market demand led development process is detailed below, followed by options for support to non-finance ME business development services and microfinance.

## **V.1. Market Demand Led Development Program**

### **V.1.1 Markets and Marketing**

Fundamental to any kind of business development is the market. Is there a market where one can sell goods at a price in excess of their cost? Which people or businesses have the need, resources, and desire to buy the product? What is the competition from other producers for that market? Are there ways that the product demand in that or another market can be increased? Is it a product for which there is demand at all? These are just a few of the questions that need to be answered by someone who wants to produce a new product or provide a new service. And they apply equally to off- or non-farm income-generating activities otherwise known as microenterprises. In fact, the answers to these questions drive the entire business development process, at any size of business. Answering them correctly can make for a vibrant expanding local regional and national economy. In rural Ethiopia, it appears that there has not been enough attention to these questions.

The world is strewn with too many failed agribusiness and handicraft projects, despite the good intentions of the NGOs, government handicraft and agribusiness promotion agencies. One key reason for that failure is that they operated on the assumption “We can grow or make products. We’ll make more of them and find the market to sell them.” Often times that meant going beyond local markets, exporting or, in the case of handicrafts, promoting to tourists. Sometimes there was a sudden surge of demand for a particular product. Too often it resulted in pile upon pile of rotting agricultural products or cheap, poor quality or poorly crafted items that sold for less than what they cost to make and market. Or they lay rotting in shops that went out of business because tastes changed and the market limits for that particular product had been decimated by oversupply or exhausted by changes in fashion. Supply-side products also tended to provide a very low return to labor to the producer. That is not the kind of solution that is needed to provide improved rural household incomes as called for in the USAID Strategic Objective 3 Intermediate Result #3.

“Going where the money is” is the recommended key concept directing the Market Demand Led Development process. If the market does not have more money than the local one selling to it, it is not going to be a very lucrative market for producers. There is existing demand for products that rural poor, women and men, could make in very large markets that have lots of

money. An example of that is the household accessories market in the US and Europe. Its annual buying power totals about US\$67 billion, and many of its products are labor-intensive. In addition to that market, sporting goods, such as flies for fly fishing, which are also labor intensive, would use local materials such as chicken feathers, do not require sophisticated technologies for high quality production, and have a large and growing US market. There are huge and growing northern hemisphere winter food markets for higher value cash crops. The money that would come into a community from the production and sale of such products would prime the pump of the entire local economy.

Priming the pump is what is needed in the food-insecure rural communities of Amhara and elsewhere in Ethiopia. What happens to the local economy once that money is flowing in is that other businesses, such as kiosks selling soap, matches, candles, flour, and other household goods, carpentry, construction, block making, and services begin to emerge based on that increased local demand driven by increased incomes in rural households. Without those additional inflows, the other businesses languish. The dynamism of the business development process that results from the economic priming from the production and sale of goods to non-local markets should not be underestimated. This is often referred to as “economic opportunity,” a concept that is currently very limited in food-insecure woredas of Amhara and in Ethiopia in general. The opportunity is to thrive from the labor and industriousness of transforming local resources into products and/or services that an outside market values much more than the local or regional market does. The profits from that production and sale are channeled back into the community in the form of increased purchases of food, farm implements, cloths, construction materials, services and other items. These purchases in turn increase the incomes of other local businesses. These multiplier effects will reach rural microenterprises and drive the creation of new types of businesses.

The challenge and key in making effective links to such markets is a willingness at all levels for the people to be able to serve external markets and the government providing an enabling environment for market development to occur.<sup>38</sup>

Another reason to look to external markets as a first step in the economic priming process is that very little market research needs to be done. In fact, it comes with the product developers whose livelihood depends on being able to sell products in that external marketplace (US and/or Europe, for example). USAID would thereby eliminate the need for expensive and prolonged market studies that are often out-dated almost as soon they are written and read.

In terms related to rural MED development, this means bringing the market to Ethiopia. The sequence should be non-farm products in the short run and agribusiness products over the medium to long run. This involves bringing product developers<sup>39</sup> thoroughly immersed in those markets with money to Ethiopia for an on-the-ground assessment of the skills, raw materials, and

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<sup>38</sup> The enabling environment in this instance is a combination of import and export policy that encourages and facilitates exports, access roads built and maintained, transport regulations and facilities that facilitate and protect movement of product from rural sources to export channels without damage and shrinkage loss.

<sup>39</sup> “Product developers” are persons whose profession is to identify potential products for a given market. They then adjust the design including colors, shapes, details, size, etc. of that product, say a leather lampshade, and get the orders from buyers of department stores, wholesalers or catalogue sales. They do not just make suggestions. They are a key link in the marketing chain.

infrastructure base for products that are in demand or for which demand can be easily created in external markets. Product developers conduct the initial assessment and produce product samples. They work with importers who provide an "order to buy." Then trainers assist rural producers in making products of the quality and quantity needed for an existing market.

*Phase One* - 12 to 16 weeks: Product developer(s) visits targeted geographic areas and groups, identifies immediate opportunities, makes product samples to specifications, returns to the home market, and finds buyers/importers that place an order for a certain number of products or product lines.<sup>40</sup> The product developer identifies the training and organizational skills and technology needed to develop the products for the existing order. The product developer will also determine if there are existing export organizations and the necessary infrastructure to take products from rural areas to export. Recent trade liberalization including the exoneration from import and export duties for NGOs should make this possible in Ethiopia. The in-country assessment usually takes three people about two weeks.

*Phase Two* – three to nine months: The product developer(s) works with the targeted/identified partners (NGOs, MFIs, exporters, training organizations, etc.) to get the production and other elements of the exporting process established, and the first order done and delivered on time. A problematic constraint to market access in Ethiopia is the lack of roads. That may not be a crucial impediment, but many restrict the initial products to non-perishable items. It may also mean that targeted areas are those in which Title II partners or other organizations such as ORDA or ADA or the regional or zonal governments are already building access roads.

*Phase Three* - two to three years: The infrastructure for the ongoing market linking system is fully established and localized.

The market development program process can be stopped at any point and revised, if preconditions to it working do not exist. Therefore, it is recommended that the activity be piloted by contracting for Phase One and Two for at least one product, with the caveat that Phase Two does not occur without an order of some pre-agreed upon minimum amount. Once an order is placed and Phase Two is underway, a larger project involving Phases One, Two and Three for multiple products would be approved. The Mission would then have the option of contracting for

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<sup>40</sup>An example of this type of product identification is the USAID ReproSalud MED project in Peru. The product developer came and identified wool (alpaca) knitted products as ones with good market demand. Many women in the targeted rural areas had basic knitting skills, but needed to be further trained to produce the quality of woolen products needed for export markets. The product developer and importer decided that pet sweaters were a good product for existing American markets. Investigation was done to identify appropriate exporters in Lima, Peru. Samples were made and brought back to the US. Buyers were visited and an order given. Within a month of the product developer returning to the US, rural Peruvian women were being trained to knit pet sweaters to fill the order and, with the help of a local product developer, trained to manage the product production, quality control, and packaging, while exporters were contracted. The women in Peru laughed all the way to the bank. Their income has almost tripled. Orders with changes in specifications continue to come in. Decorative straw brooms were also identified as a product for existing US markets. The brooms were a non-perishable, easy-to-transport item, which was important since the targeted women's groups lived in remote rural areas of Peru with poor or non-existent roads. Handmade paper was an additional product line developed for existing US and Peruvian (Lima) markets, which further increased employment among the rural women.

additional Phase One activities, or it could fold such activities into the contract for Phase Two and Three.

Given the relatively immature private sector in Ethiopia at present, it might seem inappropriate to consider such an option at this time. However, it is worth investigating by contracting for a pilot Phase One and Two for one product, while setting aside money for an expanded project including all three Phases in the event that the initial pilot proves successful. To facilitate the contracting process, the pilot could be contracted through a Delivery Order under the SEGIR IQC, if the mission wishes to rapidly get a field activity in motion. After the current war, Ethiopia is going to need all the foreign exchange it can get, so this activity should find plenty of support in the government.

Partner Title II organizations with existing activities in Amhara, ADA and ORDA should be considered to be the coordinating or point institutions as they have existing relationships with large numbers of rural poor and have been involved in logistics, training, rural roads and other market access and food security activities.<sup>41</sup> The product developer's SOWs should include assessing the capability of partner organizations and detailing their technical, training, and organizational needs and those of the producers.

The agribusiness market demand led development process takes much longer to implement and realize returns as the introduction and production cycles are much longer than that for non-farm products. High value cash crops development for small-scale farmers should be started as soon as possible and run parallel with the non-farm products market led development activities. It is not part of this study to go into the details of that activity, but the same market demand led development principles should be applied to it.

## **V.2. Microenterprise Business Development Services**

As mentioned before, market demand should drive the development of all microenterprise business development services. Market demand means both the market demand for the products that rural microenterprises will produce and demand for non-farm business development services. The market demand for ME products should bring additional money into the rural communities and not just redistribute what is already there. The demand for ME BDS services should support that ME income generation occurring and not just cater to what rural poor think they need. A third point is to link these services with the market demand led development project described above. With those two points in mind, the following is a list of the types of activities that USAID/Ethiopia could support in non-financial MED services.<sup>42</sup>

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<sup>41</sup> USAID/Ethiopia's Title II partners should also be considered for the coordinating or point institutions in this process. Preliminary discussions with FHA staff indicated that these partners do not currently have staff in Ethiopia with these skills. They would need time and resources to introduce the technical resources needed to effectively organize MED activities. But USAID should look for ways to tap those resources because most of its Title II partners do have MED experience of one sort or another in other African countries.

<sup>42</sup> As mentioned in the Issues section, the modalities and the contracting mechanism used with what types of institutions need to be worked out.



**1. Vocational and Business Skills Training** involves two elements:

- a. **Institutional Capacity building** - Training of trainers in adult education techniques, participatory, games, role-playing, consciousness-raising techniques (e.g., DELTA training); curriculum and materials development;<sup>43</sup> exposure tours to high cost-recovery business skills training services (e.g., Pride Guinea, ACCION/Colombia, Making Cents); participation in international BDS best practice workshops; regional or national workshops on BDS best practices.<sup>44</sup>
- b. **Institutional support** - Equipment and training materials purchases, vehicles for extension activities, external technical assistance in strategic and business planning, market studies, service development, marketing assistance, impact assessment, introduction of staff incentive systems, etc.

**2. Input Supply Services** schemes lower the cost of ME production inputs of some form or another. Support consists of two elements:

- a. **Institutional Capacity Building** - Study exposure tours; BDS best practice workshops/seminars/conferences participation; training in business and financial management, marketing and staff incentive systems; and,
- b. **Institutional Support** - Office equipment; external technical assistance in strategic and business planning, service design and systems, financial planning and pricing, MIS systems, staff incentive systems, etc.

**3. Technology Services** - This includes technology identification, design, development, production and promotion. Support consists of three elements:

- a. **Institutional Capacity Building:** Training in sub-sector analysis, efficiency techniques, quality control techniques, design research, etc.; exposure tours to successful technology development and dissemination organizations/networks,<sup>45</sup> efficient and high quality control production facilities, and effective marketing agents; and participation in BDS best practice workshops/seminars/conferences.

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<sup>43</sup> Under the MicroServe contract, Weidemann Associates developed and produced videos and trainer guides to successful furniture manufacturing as a business, tailoring and dress making as a business, day care center operations and small restaurant business; the videos are now sold by PACT. The videos show successful local microenterprise owner/managers showing their business and talking about what made it successful. The "Management and Business Development Dialogues" used with over 7,000 MEs in urban and rural Colombia, South America also include videos as part of their materials.

<sup>44</sup> Technical skills training for vocational trainers was not requested in our survey. Therefore, it has been intentionally left out here. One instance in which the need might arise is with the introduction of a new technology. But even in that case, it is not likely that a separate activity would be required.

<sup>45</sup> ApproTEC in Kenya has established a distribution network of 95 agriculture supply stores in urban and rural towns. AS many pumps are sold in Nairobi as in any rural town because rural people on occasion come there either to sell their goods and/or to buy supplies or tools unavailable in their local towns.

- b. **Institutional Support** - Equipment, materials and operations support,<sup>46</sup> technical assistance in sub-sector analysis, engineering, efficient production systems, marketing campaign development, staff incentive systems, distribution network design and development; and funds for production inputs or purchase of inventory from producers.
- c. **Private Sector Involvement** - Co-investing with private businesses that become producers and/or wholesale distributors of ME technologies.<sup>47</sup>

A key question for USAID/Ethiopia is the best modality through which to implement such technology development and dissemination. The options are:

- A. Funding directly to the RTPC,
- B. A technical assistance contract for RTPC support,
- C. One or more contracts for implementation that, while incorporating and supporting RTPC, goes beyond it and provides support to one of more NGOs and private sector efforts to develop and create the market for new ME technologies, or<sup>48</sup>
- D. An external organization, such as ApproTEC in Kenya, could be funded to develop a technology dissemination project based on their successful experience with several appropriate technologies in Kenya, Tanzania and Uganda.

None of these options will work, however, unless RTPC is restructured to promote microenterprise.

A key characteristic is developing and marketing technologies that can be produced at a cost below the price that they can sell in the market. The package needed for this includes sub-sector analysis, industry-specific technology development, establishing effective production quality control, and developing marketing skills among the rural poor. Industry-specific technology development should include thorough research into existing technologies developed in other countries before any investment is made in design and development of a new one. Examples of existing technologies that could be used as is include the ApproTEC oil seed press, stabilized earth block press, and Super Money Maker manual irrigation pump. The Jiko energy saving stove is another example. It is already being introduced in some parts of Ethiopia but it could and needs to be done on a much larger scale.<sup>49</sup>

### V. 3. Microfinance

As stated in the Status section, the microfinance environment needs to be enabled and particular MFIs and the industry association, AEMFI, need to be strengthened.

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<sup>46</sup> Facilities should be found/provided from other sources or rented. RTPC has plenty of room for additional activities. They also have some equipment. USAID Title II partners could have facilities that could be also utilized for such purposes. Several of those partners have experience.

<sup>47</sup> This would likely be through an NGO or some other implementing agency rather than direct from USAID.

<sup>48</sup> FEMSEDA or the REMSEDA in Amhara could be part of this as well, as could WEPC or other market linking organizations.

<sup>49</sup> Other existing technologies could easily be adapted for use in the Ethiopian context. Title II partners could tap into their experience in other countries.

1. **Supporting MFI Regulation and Supervision** involves two elements:
  - a. **Upgrading NBE capability in microfinance regulation and supervision** – Study tours to countries with more developed microfinance regulation and supervision, and then training Supervision Division staff and management in effective license application review and supervision techniques.<sup>50</sup>
  - b. **Support to research on specific aspects of existing regulation and supervision and development of alternative legislation** – Either internal to NBE or external through AEMFI (see following).
  - c. **Role for USAID:** USAID should encourage AEMFI to promote concept of GOE providing concessional rate long-term loans proportionate to the MFI's size, (at 1-3% annual interest for at least 10 if not 20 or 30 years). These loans should only be extended to MFIs that have reached operating self-sufficiency.<sup>51</sup> This will bring average cost of funds down for MFIs and enable them to reach full cost recovery sooner. AEMFI should encourage the GFDRE to do this lending as soon as possible.
2. **Strengthen Existing MFIs** – The following options could be included as part of three elements:
  - a. **Capacity Building** –
    1. Technical assistance and possibly funding support to Mekelle University for developing curriculum and materials for a diploma training in microfinance. This program would then provide training to MFI staff and management in effective microfinance methodologies.
    2. Microfinance best practices workshops and study tours for key staff of relevant MFIs in and outside Ethiopia; subjects to include: effective microcredit methodologies, savings products and systems, performance monitoring and analysis; staff and management training and incentive pay systems, financial strategies, market analysis methodologies, and others. This will fill the gap while the Mekelle University program is being developed and can be done on either a regional or national basis. AEMFI can organize it locally with local and international technical support for materials and presentations.<sup>52</sup>

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<sup>50</sup> The study tours would include visits to both the Central Bank, successful MFIs, and any MFI industry associations to discuss relevant issues and practices and learn about the process that each party went through to arrive at the current systems. Possible countries would include Bolivia, Indonesia, and Philippines (Rural Bank regulation and supervision).

<sup>51</sup> Operating self-sufficiency is defined as income from loan interest and other fees that equals or exceeds the MFI's total operating costs.

<sup>52</sup> PACT could assist in these workshops although microfinance technical consultants would still be needed from outside Ethiopia.

3. MIS system development: Support for local language software MIS systems for microfinance.<sup>53</sup>
  4. Specialized technical assistance for individual MFIs to include such activities as new product development and introduction, process re-engineering, developing manuals for operations, loans, savings and personnel, and staff incentive pay systems.
  5. Strengthening of Advocacy Function – Support of MFIs participation in AEMFI research and proposing legislation for the regulation and supervision of MFIs by supporting research efforts within particular MFIs.<sup>54</sup>
  6. Balance Sheet Strengthening – Equity investments in MFIs to improve their debt to equity ratios and provide additional loan capital.<sup>55</sup>
- b. **Supporting New MFIs** involves operational support to an MFI that is not currently operating in the Amhara region, but which has experience with an alternative microfinance methodology in another region of Ethiopia and would introduce an effective new methodology to the Amhara region.<sup>56</sup>
- c. **Supporting AEMFI** involves two elements:
1. Upgrading capacity to promote more effective MF methodologies, operations practices and products - inclusion in external and internal study tours, establishment of MF industry standards,<sup>57</sup> and,
  2. Support for research – studies of regulations and supervision process to document areas of needed change and draft appropriate legislation.

The recommended implementation sequence is as follows:

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<sup>53</sup> World Vision's Total Micro-Finance Solution (TMS) software should be investigated to determine if it is an adequate alternative for the MIS software needs of MFIs. This should be done before VOCA tries to develop the software for ACSI. If TMS is adequate software, then its use or further development might be the more efficient way to go with MIS system development for MFIs in Ethiopia. If it has a language translator function, then it can be marketed outside of Ethiopia. With MIS automation, the first step in the process should be a thorough review of every aspect of operations to ensure that the basic operation upon which the automated MIS system will operate is as streamlined as it can be.

<sup>54</sup> This could be done either with support from the AIMS or MBP projects of the G/MD Office.

<sup>55</sup> Only after the MFI has attained operating self-sufficiency (loan income equal or greater than total operating costs).

<sup>56</sup> This could be through an IGP grant funding mechanism, or with a combination of Mission and PRIME Funds from the MD Office. It is expected that only one or two such opportunities would arise in the next three years.

<sup>57</sup> This involves supporting a process wherein AEMFI guides and facilitates its members to arrive at a set of standards for products, operations, and performance that will be used by other members and the Association to self-monitor the industry and promote better practice of microfinance technologies.

### **Phase One – One to two years**

- Support AEMFI in upgrading research and capacity to promote effective microfinance methodologies.
- Support to ACSI and other existing MFIs operating in Amhara region in re-engineering their lending and savings operations, board development, upgrading their MIS, and in new product development.
- Study tours for NBE staff responsible for MFI regulation and supervision plus technical assistance for establishing efficient and effective supervisory operations.
- Technical assistance support to Mekele University to develop professional MFI expert training.
- Microfinance best practice workshops/seminars and study tours.
- Studies to substantiate the need for policy revision and develop streamlined MFI reporting.
- Support to establish a concessional rate lending facility, preferably only to operating self-sufficient MFIs.

### **Phase Two – Three to five years**

- Support to new MFIs entering the Amhara region, particularly those introducing different methodologies.
- Equity support to operationally self-sufficient MFIs
- On-going new product development, both loans and savings products.
- Extending best practice and MFI institution building to other regions of Ethiopia

## **V. Next Steps**

1. Fitsum Gebrewold goes to Washington, DC and New Hampshire for MED training. Mr. Hochschwender and Mr. Gebrewold will meet with USAID/Washington staff to review the assessment and orient Fitsum to the USAID/EG/MD office and the Africa Bureau and their resources.
2. USAID/Ethiopia SO#3 Team distributes the final report to FHA staff and Title II partners. A meeting can then be held to explore what role Title II partners can play in the implementation of recommended MED activities.
3. Based on this final report and the outcome of the partners meeting, SO#3 Team will decide on which next steps to take on specific activities.
4. Contract for pilot market led development developed and let.



# **ANNEXES**

## ANNEX A

### SCOPE OF WORK AMHARA NATIONAL REGIONAL STATE (ANRS) MICROENTERPRISE DEVELOPMENT ASSESSMENT

#### Background

USAID/Ethiopia signed a \$35 million Strategic Objective Agreement (SOAG) with the Government of the Federal Democratic Republic of Ethiopia (GFDRE) in support of the National Food Security Program.

The Strategic Objective as articulated in the SOAG is "***Rural Household Production and Productivity Increased.***" Program activities will emphasize on development and transfer of improved food and agricultural technologies to rural households by the agricultural research and extension systems. These efforts will be complemented by activities focused on increasing rural household access to financial services (savings and credit) and developing and consolidating rural micro-enterprises to support increased rural household income from off- and non-farm employment. Program activities will be concentrated in the 47 chronically food insecure *woredas* of the region.

The primary beneficiaries of the program will be the 2.4 million rural households (14.6 million people) of the ANRS, and specifically the 1 million rural households (6 million people) living in the 47 chronically food-insecure *woredas*. Food crop production in the focus area is low, and adoption of improved technologies is very low due to many factors including lack of financial resources and alternative income generating enterprises. Although constrained by poverty and access to markets, microenterprise development in these areas is critical to improve the well being of rural households.

#### Purpose

The purpose of the Amhara Region Microenterprise Development Assessment is survey the status of microenterprise development in the region in order to identify the opportunities and options for utilizing SOAG funding to support the long-term development of the sector. The results of the assessment will be used to inform the design of an overall Results Package and specific support activities.

#### Scope of Work

The Amhara Region Microenterprise Development Assessment will examine the status of government and non-government institutions planning or currently implementing microenterprise development (MED) activities in the region, with particular attention to activities in the focus area. The focus of the assessment will be to identify options and potential opportunities for USAID assistance. In that context, the assessment will seek to answer the following questions:



1. Which organizations (government and non-government) are involved in MED planning and implementation in Amhara? Specifically:
  - a. Which government agencies are involved in MED activity in Amhara, and what are their roles and responsibilities?
  - b. Which non-government organizations are involved in MED in Amhara, and what is the focus of their involvement?
2. What organizations are planning or currently implementing MED activities in the Amhara Region? Specifically, for each organization:
  - a. What specific activities are being planned and/or implemented?
  - b. What is the general nature and scale of the activities?
  - c. In what geographic area are the activities focused?
  - d. Which donor agencies are funding those activities?
3. What are the apparent capabilities, strengths and weakness of institutions supporting MED development in the Amhara Region?
4. What MED development support services are available, or potentially available in the Amhara Region? Specifically:
  - a. Which institutions/organizations are providing business development services?
  - b. Which institutions/organizations are involved in developing appropriate microenterprise technologies?
  - c. Which institutions/organizations are extending technologies to end users?
  - d. Which institutions/organizations are providing training in support of MED?
  - e. Which institutions/organizations are involved in product promotion and marketing?
  - f. Which institutions/organizations are providing microenterprise credit?
  - g. What critical services are unavailable?
5. Based on the answers to the questions above, what is needed to promote MED in the region? Specifically:
  - a. What types of technical assistance would be most effective in supporting MED in Amhara?
  - b. What kind of training would be most effective in supporting MED?
  - c. What approach to operational support would be most effective for the critical institutions involved in MED in the region?
6. What is the recommended approach to best utilize USAID resources to promote MED in Amhara?

## **Services Required**

The services of a senior Microenterprise Development consultant are needed to lead the Amhara Region Microenterprise Development Assessment. The consultant will work in collaboration with a USAID/Ethiopia FSN staff member and an individual selected by the Amhara National Regional State will carry out the assessment.

The consultant should be a senior professional a minimum of an MS degree in a field related to MED. S/he should have an extensive experience in the design and implementation of MED activities in developing countries. Prior African experience and familiarity with Ethiopia is preferred. The anticipated level of effort is 3 weeks, beginning in mid-March.

## **Reporting Responsibility**

The consultant will work under the direction of USAID/Ethiopia Strategic Objective 1 Team Leader, and in collaboration with the FSN staff member responsible for MED and the Amhara National Regional State (ANRS) Food Security Unit (FSU).

Prior to arrival the USAID/Ethiopia FSN staff member, in cooperation with the Amhara Region FSU, will collect information related to questions 1-4 and prepare a draft schedule for field interviews and assessment.

Prior to leaving Ethiopia the consultant will prepare a draft report and debrief USAID, GFDRE and ANRS representatives on the findings and recommendations of the study at USAID office in Addis Ababa. The consultant will incorporate comments and feedback into a final report.

## **Logistical Support**

The consultant will be provided with a vehicle and driver to carry out the assessment work in the ANRS. USAID/Ethiopia will also provide office space and computer support for preparation of the draft report. In addition, the USAID/Ethiopia FSN responsible for MED will travel with the consultant to assist and support in the assessment, and provide translation services.

**Annex B**  
**Business Development Services:**  
**Training Services**

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Amhara Development Organization	Amhara 3 training centers (Teda, North Gonder, Kamisee, Oromia, Haiq, South Wollo)  Handicraft production workshops in Bahir Dar	2200 over 5 years  440/year	None  Pay per diem and B25/month pocket money to trainees	4 month courses in carpentry, masonry, auto mechanics, maintenance techniques for grain mills, blueprint reading Planned – poultry, animal fattening, metal & wood working,  Provide tools for ME startup (B380-480)  Handicraft production workshops for returned soldiers of EPRDF (Gobel Industrial Village)	75% of trainees creating own jobs  15 staff in each training center  Average cost per trainee = B2,000	Ethio SRDF (WB)  UNDP  Member contributions (cash and in-kind)  French Embassy  Packard Foundation	Ability to mobilize resources  Doing training needs assessment both of demand and market need.  Cost efficient  Study impact at business & household level to see how to better help poor  Integrate training with other community development activities  Have 100,000 members	No fees/cost recovery  Totally dependent on donors  Two training centers require that students from rural areas be lodged and fed.	Facilities for training provided by government  Plan to train youth in credit association development, link with ACSI – will contribute loan funds  Need TOT on principles of MED and in ME business skills training management and bookkeeping  Need assistance in transport and other facilities

## Annex B

### Business Development Services: Training Services

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
African Village Center for Enterprise and Entrepreneurship Development (CEED)  Estab'd 1998	Addis Ababa	200 per year	B1-5 per course	Economic awareness, basic entrepreneurship skills, and entrepreneurship development training 3-5 half days per course  Business linkage			Focus of training is on illiterate women & is geared towards local products  Short courses  Recognize need for studying market linkages between micro, small and medium	Relatively small NGO  Still developing materials	Using materials that were successful in Tanzania (FAIDU-Profit)  Needs sub-sector analysis technology  Should investigate to see if materials could be used in Amhara  Man. Dir. has international experience

## Annex B

### Business Development Services: Training Services

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Bahir Dar Medhanealem Orphans and Destitute Family Support & Training Center (BMODFSTC)	Bahir Dar	720 over 5 years  in particular elderly, women needy boys and girls, and orphans  Select by Kebele Committees  Target 6100 over next 3 years (if get funding)	None	Fishnet and other net making Fishing and fish processing Carpet making Tailoring Traditional metal works Wax tapering, Spinning & weaving Leather Embroidery and needle work knitting and other ME craft skills  \$450-1500 equipment and startup money at end of training 18 months to pay interest 4%	280 fishnet making 50 fishing & fish processing 125 carpet making 51 tailoring 80 traditional metal works 134 (wax taper making, weaving, & similar fields)	Donations  US, Canadian Japan Finland Embassy  CRDA	Are providing unusual mix of training based on market opportunities  Sell students products  Have big plot for vegetable production demonstration	Funding	A surprisingly diverse mix of skills training and adapted to local market demand.  3 trainers  BOA, BOE, BOTI provide some of training  Need for transport, technical, professional and material resources.  Rudimentary but functional facilities.  Could be a source of training materials or curriculum for other training institutes  Also do sanitation, hygiene work

**Annex B**  
**Business Development Services:**  
**Training Services**

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Bureau of Education	Amhara  Community Skill Training Centers CSTCs in 75 woredas	4323  (24,160 in last 7 years out of which 16,284 males, 7,876 females)	No fees	Skills training in pottery, leatherwork, carpets, embroidery, metalwork (blacksmith) woodwork, hand knitting, cloth weaving	2,975 males 1,348 females  mixed results after training as far as getting a job or creating one	Govern-ment  NGOs contribute cash and materials	Have facilities  Initiative to provide primary level vocational training and some business skills training to diversify rural poor incomes and local product supply  Training of Trainer's manual	Limited money  Limited entrepreneurship training  No standard training materials or curriculum	Not all centers functioning at present  Doing an impact assessment to improve skills training- to be available June 30, 2000  Need training materials  Need attitude change to have trainees share costs

**Annex B**
**Business Development Services:  
Training Services**

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Bureau of Labor and Social Affairs  Centers established in 1998	Amhara 7 training centers Bahir Dar, Gonder, Debre Tabor, Woldia, Dessie, Debre Birhan, Debre Markos	1750 registered 1384 completed training	None	10 month voc. skills training: Metalworking, wood work, automotive, electricity & electronics, drafting and surveying, building construction, building technology, entrepreneurship and applied math  Supervise operation of 40 flour mills	80% of graduates go to work in government  88% registered pass final exam capacity 1750/ year 250 per center  2 month apprenticeship often turns into a job  Many not functioning	GOE  German machines and German Volunteer Service  UNICEF	New facilities and equipment better then other vocational schools  Standardized training curriculum and materials  Job placement services  Trainers in Dessie enthusiastic	No established link to credit for graduates who will become self-employed/start own business  Only two training groups to date.  Trainers only have 2-3 years experience  Prices charged for student products sold are below cost	Secondary level of vocational skills training that includes some basic business skills.  Take grade 10 grads so can only give certificate and not diploma  Talking with ACSI about making ME startup loans to graduates  Need TOT rather than technical skills upgrading
Bureau of Trade and Industry	Bahir Dar	NA	None	ILO-IYB and SYB mobile video	30 persons assisted in feasibility study/ loan proposal prep	GOE	Have ILO materials in Amharic	Limited money  Generally too sophisticated for ME and particularly women	BOTI has responsibility for licensing and controlling merchant trading and industrial production.

**Annex B**  
**Business Development Services:**  
**Training Services**

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Dessie Street Children Project	Dessie, South Wollo	45 girls Indirect 43 mothers 105 siblings	None	Skills training, counseling and guidance services, provide	Sold B45,000 of students' production	Terres des Homme  PACT CRD  Swedish Development Council	Comprehensive rehabilitation project for street children  Have been able to place several cooking and leather work trainees in jobs	Limited capacity  Expensive package of services  No future funding at present	Results on an individual basis appear from observation impressive, but questions remain about the high cost and limited reach.
Dessie Chamber of Commerce	South Wollo	30	B35/ month for ten months	10 month training in Secretarial science/Office management  Typing Amharic & English Bookkeeping/ Accounting Business filing	Licensed through Ethiopian Chamber of Commerce so students get Diploma  Almost 70% get jobs, a few create their own ME		5 hours /day 5 days a week allows student to hld a job at same time. Schedules are flexible to accommodate this.	At present, no link to rural business	See no need for computer training as private schools exist in Dessie and Addis  Past misuse of Chambers by government adversely constrain membership



## Annex B

### Business Development Services: Training Services

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Federal Micro and Small Enterprise Development Agency	Addis Ababa	80 technical trainees	B120-180 per month Usually paid for by NGOs or businesses	Ceramics, bamboo, foundry, wood working, weaving handicraft, leather/tannery vocational skills training.10 month with certificate	B200,000 in training fees  7% cost recovery	GOE, GTZ	Well known; NGOs call on them for training	REMSEDA's have not yet been established	Looking for donors for equipment, organization development (classrooms), and manpower
		620 business skills trainees in last 9 months	B120-130 per week	Business skills (CEFE) training 2-3-4 weeks in 2 rounds plus coaching  TOT in CEFE	620 trainees in 9 months		CEFE materials better liked by businesses sending new employees for training	Limited staff resources to support REMSEDA development	GOE pays for staff
							TOT in CEFE capability	Lack regional facilities	GTZ is supporting FEMSEDA to provide capacity building to REMSEDA's in regions and ANRS is high on the list.
							Have 20 trainers		Regional government has to come up with money for REMSEDA
					40 trainers in Oromia		Large facilities in Addis Ababa		
							Export carpets to Europe		Good potential for supporting Amhara TOT

**Annex B**  
**Business Development Services:**  
**Training Services**

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Lutheran World Federation  Started in 1999	Bugna, Habru, Kobo	325 total in less than one year 245 women 80 men	None  Pay per diem for trainees	Training of trainers in Economic empowerment of women training: How to use money and types of income generating activities  Market assessment program(MAP) –track market prices and advise on better strategies	325 trainers trained 80 males 245 females	Lutheran Churches	Training is part of integrated development program  Market assessment follow-up  Have arranged credit facility to complement training	No fees  Work through Farmers Coop Promotion	Some food preparation training is done as part of nutrition training. Food preservation training could be used for ME.  Consultative meetings with coops  Have small scale irrigation based activities including agriculture, soil and water conservation, institution building

**Annex B**  
**Business Development Services:**  
**Training Services**

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Micro and Small Enterprise Programme	Addis Ababa and Nazareth	1098 trained in 18 months	None	Managerial, bookkeeping, marketing, proposal writing and credit management training  Association formation, cooperative formation, and leadership training	Total of 33 groups formed with 550 members  217 women (40%) 333 men (60%)  3 groups attained work space  Have linked 12 groups to AVA for credit, 3 approved	GTZ	CEFE materials appear to be more appropriate for ME's  Facilitating, participatory and process approach		Materials and results from this activity could be valuable resource for any Amhara BDS activities.
Organization for the Rehabilitation and Development of Amhara	35 woredas of Amhara	NA	None at present, though cost share with communities	Vocational and business skills training, food distribution, soil conservation, etc.			Experienced in logistical coordination of multiple activities  Experience in MED skills training	Not specialized in any aspect of MED	Past and present support of CSTC's including vocational and basic business skills training  Engaged in many activities in rural areas: agricultural, roads, environmental protection, soil and water conservation, reforestation

## Annex B

### Business Development Services: Training Services

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Specialized Financial Services & Promotion Institution  Started in Sept, 1999	16 woredas of Addis Ababa  Investigating Oromia & Amhara	22 NGO trainers  200 individual trainees	B1000  Free till now, but working on 30% cost sharing	Training of Trainers for 15 days - exposure to ILO-SYB/IYB materials  Money and management  Use Jr. College accounting materials  Also do social and hygiene training	NA	Oxfam GB  ILO			Have 1 trainer and 1 Unit Head coordinates outside trainers (12 master trainers)  Need illiterate materials  Do training needs assessment then do 2 rounds of training of 100 people each  In Oromia using farmer coops to study needs.

**Annex B**
**Business Development Services:  
Training Services**

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Women's Enterprise Promotion Center	Addis Ababa	230 Voc. Skills  150 gender sensitive planning and grassroots management	None (cover some costs with product sales)	Vocational skill upgrading in handicrafts,  Train organizations in gender sensitive planning and grassroots management		SRDF  WB  Product Sales	Using WB-EDI WYMTOP training materials  Manager has entrepreneurship training from Enterprise Ethiopia - MSI	Free training and grant subsidies to women's groups for equipment & materials  Crafts shop not self-sufficient  Are using mostly traditional supply driven handicraft product approach	The funding side of the activity could compete with MFIs, though they are not supposed to do it where MFIs are.  Craft shop interested in Market Demand Led Development Approach
World Vision	Amhara, Oromia Southern Region	NA	None	Technical skills and basic business skills				Does not have capability to tailor make training to meet client needs	Reportedly very generic training
<b>Consulting Services</b>									
Bureau of Trade and Industry (BOTI)	Eight zonal towns & 14 Woredas	Up to 11,800	None	Disbursing and collecting loans  MSE Business Plan Preparation  Pre-feasibility studies for list of small businesses	Up to six associations per staff  1 association 20-30 members	GOE  World Bank	Experience in organizing MEs,  Loan Recovery Rate = 98%	No additional loan Limited funds  ----- Very limited outreach (5 staff) and overkill for ME	BOTI organizes, disburses, and collects loans.  ----- Traditional SME business development approach that has seldom been very effective at small and micro business level.

**Annex B**  
**Business Development Services:**  
**Training Services**

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
<b>Marketing Services</b>									
Bureau of Trade and Industry (BOTI)	Bahir Dar	NA	None	Trade fairs (local and national)  Market price information		GOE  GOE	Links to MOA for Ag prices info	Limited money  Cannot follow flow of goods between regions except medicines, coffee, alcohol & beverages & petrol	Focus has not been on MSE products  Source of information on both agriculture and industry.  Had to discontinue magazine after two issues because of lack of funds.
Bureau of Trade and Industry (BOTI)	Bahir Dar D/Markose Bahir Dar 8 Zonal Towns  Gonder/Dessie	18 10 15 155  120		Leather Products Embroidery Grassroots Mgmt.  Experience-Sharing on Micro-operators	   Better screening ability in team formation	UNDP  SIDA  ESRDF		Limited funds	BOTI shall focus on promotional work only.
Dabat Dairy Farmers Association	Dabat North Gonder	33 members to 50 members by end of year, and then add 10-15 per year.	Earning from sale of products	Processing milk into cream, butter, waste water, and some chees	Net Income B5,000 in 6 months while paying two FT staff	ILRA ILDLP	Demand not yet met in Dabat and already interest coming from Gonder market	Are being very selective about who they will include in association  They are replacing individual farmers by pricing B1 below their price.	Need financial analysis to confirm positive ROI  Need market analysis to determine limits to market.

**Annex B**
**Business Development Services:  
Training Services**

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Dessie Street Children Project	Dessie, South Wollo	45 girls Indirect 43 mothers 105 siblings	None	Bulk purchasing of leather	Sold B45,00 Of products	Terres des Homme  PACT CRD  Swedish Development Council	Leather products looked to be of high quality.	Local marketing mainly to visitors of the center.  Expensive package of services  No future funding at present	Need to expand marketing reach if production can meet order demand. Could serve as marketing channel for self-employed graduates.  This could be source of income to cover more costs of training and other activities.
Federal Micro and Small Enterprise Development Agency	Addis Ababa	NA	Cover material and some salary costs	Sales and promotion of MSE products, including graduates.  Machine repair services  Handicraft sales	B200,000 sales industrial products  B400,000 machine repair services  B200,00 Handicraft sales/services  Cost recovery 25%	GOE  GTZ	Have sales/display space for industrial and handicraft products  Are providing repair services with demand.	Sales outlet inside compound and not visible to foot traffic  Limited promotion	Need for marketing expertise to better promote availability of products.  Market out of sales office and to local retailers.  Might need to clarify with GOE ability to be non-profit retailer.  Plan to expand to other regions including Amhara when regional governments come up with money for establishing REMSEDA

**Annex B**  
**Business Development Services:**  
**Training Services**

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Lutheran World Federation  Started in 1999	Bugna, Habru, Kobo	900	None	Market assessment program(MAP) –track market prices and advise on better marketing strategies	900 coop members every 2-3 months	Lutheran Churchs	Market assessment follow-up to training and credit services detects over supply in local Markets.	No fees  Work through Farmers Coop Promotion	Consultative meetings with coops  This activity could serve as a model for MFIs and other BDS providers for assisting in market awareness of their clients
<b><i>Input Supply Services</i></b>									
Dessie Street Children Project	Dessie, South Wollo	45 girls Indirect 43 mothers 105 siblings	None	Bulk purchasing of leather	Sold B45,00 Of products	Terres des Homme  PACT CRD  Swedish Development Council	Comprehensive rehabilitation project for street children  Have been able to place several cooking and leather work trainees in jobs	Limited capacity  Expensive package of services  No future funding at present	Results on an individual basis appear from observation impressive, but questions remain about the high cost and limited reach.



## Annex B

### Business Development Services: Training Services

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Micro and Small Enterprise Programme	Addis Ababa and Nazareth	30 shiro kek producers (Fagulo)  23 blacksmiths (charcoal)  12 Kola glue makers  17 brush makers	None	Linkages to input providers to buy in bulk for groups of micro-enterprises	Total B4,740 savings to 30 shiro kek producers with only B900 loan and link to supplier.	GTZ	Direct links to Chambers of Commerce and private  Minimal need of capital and human resources for managing, financing purchase and handling of materials.	Only one ME group appears to have established an ongoing bulk purchasing agreement	Business linkage type activity avoids getting into handling inventories and is recommended approach for supply of lower cost inputs.  Social impact can be pushed on recruiting suppliers.  Results from this activity could be valuable resource for Amhara activities.
<b>Technology Services</b>									

**Annex B**  
**Business Development Services:**  
**Training Services**

Name	Locations	Number of Clients	Fees	Types of Services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Rural Technology Production Center	Bahir Dar & Kombolcha		Cost of raw material and some salary costs	Production and distribution of improved, non-mechanized agricultural implements	Bahir Dar:  NA  Kombolcha: 195 beehives 40 chicken coops 57 broad-bed maker ploughs 36 mud beehive molds 36 top bar Kenya hives 35 potter's wheels 3 weaving machines	GOE  Revenues from sale of products	Have a few products.  Have trained and experienced technical staff.  Claim there is more market than they can supply.	Recent policy has eliminated their role in MED technology development  Lack sub-sector analysis approach  No incentives for field agents.  Lack adequate funding to produce larger quantities to products for which there is a market.  Need better access to low cost inputs.  Distribution depends on GOE ag extension service promotion and delivery.  Do not actively look to streamline in-house prod'n process to decrease production costs below sales price.	RTPC used to train farmers in producing bamboo products, which can be good ME.  The head of the RTC was not acting proactively to set agenda for their work.  Recent budget and planning uncertainties have almost halted production.  Trying to produce <i>ApproTEC Super Money Maker</i> treadle irrigation pumps without proper jigs. Will defeat product in market if product not highly quality Needs revitalization, more business-like operations and reentry into ME technology prod'n and dissemination. Needs TA in production efficiency marketing



## Annex C

### Microfinance Institutions in Ethiopia<sup>1</sup>

Name	Location	Number of Clients/Portfolio	Interest Rates/Fees	Terms/types of loans/services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
African Village Financial Services Share Company  Started lending in May 1999	Addis Ababa	194 clients  63% women  B284,000 total portfolio	16% flat plus 4% service fee plus B5 registration fee for credit training	Solidarity groups of 5-7 in Centers of 6 groups. Up to 6 month loans to existing businesses.  Modified Grameen with forced and voluntary savings.  1 <sup>st</sup> loan max B1000, doubles up to B5,000	99% on-time repayment rate  Dropout rate 12-13%  35 loans/credit officer.  Savings B30,000	CARE	Starting outting cautiously; not disbursing all of available loan funds before get some experience in paybacks.  B500,000 loan fund  Get clients through 'iddri' groups  Obligatory and voluntary saving	Just getting started, Unproven staff and organization.  Very low number of loans/CO  14 hours pre-credit training in credit management is longer than industry average (10) and increases cost of making first loans.	Work with 'iddri' groups.  Still evolving methodology.  Target existing businesses  Want to develop individual loans with hire/purchase to get around B5,000 limit.  Manual MIS  Linked to African Village Centers for Enterprise and Entrepreneurship Development (see BDS)

<sup>1</sup> This includes only the microfinance institutions that the team visited. There are nine other registered MFIs, including the largest, Dedit in Tigray, which has approximately 400,000 clients. The CRS spinoff is about to be registered; they do not plan to operate in Amhara in the near future.  
Weidemann Associates, Inc.

# Annex C

Name	Location	Number of Clients/ Portfolio	Interest Rates/ Fees	Terms/ types of loans/ services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Amhara Credit & Savings Institution Share Company	105 Woredas in Amhara Region	140,000 borrowers 190,000 savers  women = 40%	12.5 declining balance  pay 6% on savings	Group (5-7) loans with monthly meetings. Loans 6-12 months with monthly payments.	97% on-time repayment rate  90% cost recovery  Ave loans/CO = 190-200  Operating costs = 7% of loan amount	Savings = 60% of Loan Portfolio	Have offices in all woredas of region  Have been able to maintain high repayment rates while expanding rapidly.  Have extremely dedicated staff who are subsidizing costs by working overtime without extra pay.  Good linkage with external MFI networks  Head of finance in Indonesia learning BRI Unit Desa and KKK savings products	Manual MIS system; Staff have to work until late in evenings and on Saturdays to complete administrative functions.  Interest rate margin of only 6.5%, which is too low for profitable MF.  # loans per CO is low by industry standards (190-200 versus 300-400) , particularly for group lending.	1109 staff in 15 branch offices and 160 sub-branches – will halt opening of new offices and hiring staff until productivity brings 100% cost recovery.  Need additional funding for loan portfolio  Distributing FDRE pension payments to 42,000 pensioners per month. Do money transfers  Exploring new products/services  Open to listening to BDS programs requests for loan for graduates of technical training, but being careful to maintain own criteria for lending.

# Annex C

Name	Location	Number of Clients/Portfolio	Interest Rates/Fees	Terms/types of loans/services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
CRS Women's Savings and Credit Association  Est'd 1994  MFI in process of registration Should be registered by July 2000	Addis Ababa, Harar, Dire Dawa & East Hararghe, Oromia	1542 women  mostly urban  Target 4,000 over next five years	10.5% declining  will charge 15-20% flat under new MFI  6% on savings but thinking of raising to 7.5-8% to compete for deposits with other MFIs	Use solidarity groups within association  Save 20% before 1 <sup>st</sup> loan of B150-180 for 4months with monthly repayments  Max. 6 months  Will introduce village banking methodology under new MFI	20 Associations  low operational and financial self-sufficiency		CRS International has ample success with VB technology  Advisor for VB did it in Uganda	Size of associations makes management more difficult, therefore need to change methodology  Low cost recovery  Competition from Non-MFI subsidized microcredit in their areas	Works through local counterparts: Cheshire Foundation Hararghe Catholic Secretariat, Meki Catholic Secretariat, Nazareth Children's Center and Integrated Development, Wonji Catholic Church  Uses matching grant for loan funds  Claim SHO and CCF doing low interest rate microcredit in their areas  New MFI could introduce new MF methodology to Amhara if funds available

## Annex C

Name	Location	Number of Clients/Portfolio	Interest Rates/Fees	Terms/types of loans/services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Fatumatu Zehara Aid Organization	Bahir Dar	75 borrowers  women = 32%	12.5% flat	Individual loans approved by Kebele leader. Loans for 12 months for weaving, tanning, or food preparation	Mixed (exact numbers not available)  Use Kebele leaders to contact delinquent payers	Saudi Arabian donors mainly  Local & Int'l NGOs	Use Kebele leaders for borrower selection and to pressure delinquent payers.  Have limited lending to ME's with identified demand.	Small.  Inexperienced  Under-funded	Nephew of founder runs it.  Principle activity is an orphanage.

# Annex C

Name	Location	Number of Clients/Portfolio	Interest Rates/Fees	Terms/types of loans/services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Specialized Financial Services & Promotion Institution  Started in 1996	16 woredas of Addis Ababa  Investigating Oromia & Amhara	2,000 + 2 coops in Oromia with 240 and 700 members  B2.06 million  Average loan – B950	16% declining balance  pay 7% on savings  3% management fee on Managed Funds	Group (5-7) loans with monthly meetings. Loans up to 6 months. (Grameen replication) and forced savings  Individual loans to clients from outside operating area (use personal guarantee of employed person or coop)	98% on time repayment  15-20% dropout rate reducing to 10% or less with monthly meeting  38% cost recovery  Average loans/Credit Officer = 300  Average portfolio/CO = B300,000  Staff/CO = 2.2  Operating Cost = 44% of loan amount.	Managed funds of non-MFI NGOs  Japanese  ICCO – Dutch  Sale of Shares  Savings	High repayment rate  Have worked out a way to expand loan portfolio without having to find the funds themselves (managed funds).	Drop out rate increases costs by requiring continual new clients.  May have gotten into savings too soon, though they do provide some loan funds.  Operating costs at 44% are high	Shortage of financial resources due to low cost recovery combined with portfolio expansion.  Need to increase operating efficiency and/or increase interest rate/fees.  Claim that competition prevents increasing interest rate/fees.  Piloting lending to Coops for on-lending to their members in Oromia  Implementing “Total MF Solution” MIS system  Implementing BDS and promo unit training in SB management (see BDS)



# Annex C

Name	Location	Number of Clients/ Portfolio	Interest Rates/ Fees	Terms/ types of loans/ services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
WISDOM Micro-Financing Institution S.C.  Est'd June 1998	Amhara Oromia SNNPP 2 Branches and 11 sub-branches ;  will add 1 branch and 4 sub-branches this year	4845 Active  B3.2 million	12.5% flat plus 2% application fee  pay 6% on savings	Grameen model group (5-7) loans for	98% Repayment rate  2.08% Portfolio at Risk (over 30 days)  2.33% Portfolio past due >1 day	26 share holders B200,000  Interest income  World Vision USA (50%)  World Vision Canada  Applied for B10 million grant under DAP	Differentiate need for credit and relief  Quarterly forum to discuss problems and opportunities  High repayment rate maintained  Have radio link to sub-branches for weekly reporting of key statistics  Have internal audit function in central office  Monitor impact of loans (e.g. weavers group in Addis had price of products drop 50% because of over supply)	Apparent inconsistency in application of group formation technology in Amhara  Lack of standard training materials and staff training process; most training is OTJ.  Monthly data consolidation  Do not have internal audit function at level of branches and sub-branches	World Vision was doing microcredit as part of integrated rural development since 1994  GM has 15 years government experience.  Amhara zones have been dry last three years, do not lend where relief is what is needed. Bulk of portfolio in South.  A challenge is WV institutional mandate of relief  Need capacity building. Staff training, visits to other successful MFIs, training materials, management training- will pay for participation.  Have \$10,000 MBP grant for regulatory/ Supervision workshop. Need to organize soon.

## Annex C

Name	Location	Number of Clients/Portfolio	Interest Rates/Fees	Terms/types of loans/services	Performance Indicators	Funding Sources	Strengths	Weaknesses	Comments
Association of Micro Finance Institutions (AEMFI)	Addis Ababa  National scope	15 member MFIs  Total clients 471,000  Total loans outstanding \$34 million	NA	Advocacy  Member staff training  Meetings & Conferences	Membership growing  44% women	PACT  Member fees	Has strong General Manager with experience in finance and research	Young organization with limited authority  Members tend to think independently	Strategy is to create awareness and provoke discussion  Need MF industry performance study for regulatory reform  Need data to give to policy makers to review new law  Need to develop MFI industry standards  REST provides offices

**ANNEX D**  
**Donor Microenterprise Development Activities**

Name	Program Name	Types of Activities or MED Services	Area(s) Served	Period of Program	Funding Amount	Comments
African Development Bank						
CIDA	Canadian Physicians for Aid and Relief (CPAR)	Meket MFI, some skills training through CSTC's	South Wollo in Amhara	1995-2002	NA	
CRS	Women's Saving and Credit	Microfinance	Oromia and Southern Region	1994-2003	NA	<p>Prior to MFI Proclamation, CRS worked with 5 local counterparts on Grameen style lending and savings.</p> <p>They are in process of applying for a MFI license together with their partners.</p> <p>Some relation to training and other integrated rural development services.</p>
European Union	Private Sector Development Program	Capacity building plus capital funding to strengthen balance sheets of MFI's	National and Amhara	1997-2000	Euro 5-7 million	Originally capacity building but now more focused on capital funding to strengthen balance sheet.
		AEMFI – capacity building, equipment, capital for conference, MFI advocacy	Addis Ababa	1998-2000		Advocacy of MF as economic development activity rather than current social welfare emphasis. Thinking possible injection of funds for advocacy and MFI training needs.
		National Bank of Ethiopia under Supervision Division	Addis Ababa	2000-2003		Upgrading of supervision of banks, possibly including MFI's
		NGO Co-financing	National	2000-2003		FEMSEDA to support MSED & other agency
	Employment Generation Scheme	Cash for work road construction,	Amhara - 14 woredas	1999-2002	Euro 2 million	Creating assets for future food security

**ANNEX D**

<b>Name</b>	<b>Program Name</b>	<b>Types of Activities or MED Services</b>	<b>Area(s) Served</b>	<b>Period of Program</b>	<b>Funding Amount</b>	<b>Comments</b>
	Integrated Food Security Programme	reforestation, water supply construction, better land practices taught	4 woredas in Amhara	2000-2003	Euro 6 million	Whole package of services, still in pre-prep stage, have budget and list of activities and will start by June.
	European Food Security Network RESAL	Non-farm employment  Research related to food security	National	1999-2002	NA	Studies for policy related information, price collection and dissemination, public enterprise, "Income Diversification in Amhara" - bigger study designed. Need detailed info on: income opportunities, market info and access, credit. See major towns as markets for rural products. Need market linking services Migrants need wage/pay guarantees, places to stay, family care Need LT strategy for transforming rural towns into sub regional business centers with tax & fiscal policies to support this development.
GTZ	MSE Development Programme	Employment and income generation particularly in urban areas in 5 regions  Managerial, bookkeeping, marketing, proposal writing and credit management training  Association formation, cooperative formation, and leadership training	Addis Ababa Amhara Oromia Southern Region Tigray	4/96-9/01	DM 7 million	Support establishment of MSE promotional agencies on federal and in 5 regions. Strengthening of private sector organizations (Chambers & Associations) in provision of demand oriented services to MSEs  Support in application and adaptation of CEFE entrepreneurial training method.  Support in establishment of MSE related information system.  Development of monitoring and evaluation system for programme steering and adaptation.

**ANNEX D**

<b>Name</b>	<b>Program Name</b>	<b>Types of Activities or MED Services</b>	<b>Area(s) Served</b>	<b>Period of Program</b>	<b>Funding Amount</b>	<b>Comments</b>
GTZ	ECA-Promotion of the Informal Sector	<p>Improvement of general business environment for MSEs</p> <p>Business linkages for markets, supply, training and other services</p> <p>Some credit through MFIs</p>	National	1992-2001	DM 4.92 million	<p>First phase was in Ghana and Cote d'Ivoire. 2<sup>nd</sup> phase in Ethiopia and Zambia.</p> <p>MSEs are encouraged and assisted by local project coordinators and animators to identify, analyze and solve their problems in groups and thereby enter into negotiations with public authorities and private enterprises. Often this involves linking them to NGOs and MFIs.</p> <p>This is a test of the facilitative, participatory and process-oriented approach in pilot countries and is to be disseminated all over Africa.</p>
PACT	<p>Institution Building and Enabling Environment</p> <p>Grants</p>	<p>MFI and NGO capacity building : Strategic planning, Board development assistance, proposal writing, financial management, equipment and software</p> <p>Up to \$50,000 per institution</p>	National	1998-2000		<p>USAID Cooperative Agreement</p> <p>Have sent group of MFI and government officials to DC, Peru and Bolivia MF study tour in attempt to have influence on policy.</p> <p>Suggests USAID support NBE with computers and training</p> <p>Work with ACSI, ADA, ORDA and JACH in Amhara</p> <p>PACT activities also support education, food security, rural development, &amp; democracy and governance.</p>
SIDA	Rural Development Programme	Economic diversification Training, TA and access to MF	Amhara East Gojjam	1996-2000 to be extended through 2001	\$580,000	Part of rural development food security project. BOTI never really got much going, nor did it reach ME's as planned. SIDA tried to get BOTI to do planning workshop, but haven't. Will not add to funding of BOTI unless they come up

**ANNEX D**

<b>Name</b>	<b>Program Name</b>	<b>Types of Activities or MED Services</b>	<b>Area(s) Served</b>	<b>Period of Program</b>	<b>Funding Amount</b>	<b>Comments</b>
		Support to ACSI			\$3.75 million	with a sound strategy.  Have 1 hour per day radio station slot for development promotion.  Loan funds and vehicles  SIDA adding \$5-6 million to extend overall project one year.
UNDP	UN Volunteers	Women's Skills Training Institutional Capacity Building	Addis Ababa, Amhara & Oromia	2000-2002	NA	Two volunteers are placed in the Women's Enterprise Promotion Center
	MicroStart	Second tier MFI capacity building	7 MFIs National	2000-2003	\$2 million \$500,000 TA plus \$1.5 mil for credit funds	Not approved by GFDRE
World Bank	Rural Finance Sector Program	Rural finance analysis and upgrading	National	2000 - 2004	NA	Rural Finance Sector Study initiated in May, 2000. Report by end of June, 2000 Workshop of stakeholders in July, 2000 to go over results of study, get feedback and plan WB activities/ involvement.  USAID/Ethiopia should be sure to coordinate with WB on study and attend workshop.
	Grassroots Initiative Fund	Skills training, health, education, community projects,	Amhara & Oromia	Pilot 1999-2000 2000-2003	\$260,00 \$5-6 mil. WB \$2 mil. Italians	In conjunction with Women's Affairs Office of the Prime Minister's Office. Project is Social Development Office of WB Pilot phase just finished  Plan to grant funds to women producer groups for investment in equipment &

**ANNEX D**

<b>Name</b>	<b>Program Name</b>	<b>Types of Activities or MED Services</b>	<b>Area(s) Served</b>	<b>Period of Program</b>	<b>Funding Amount</b>	<b>Comments</b>
						materials for production. Reflows may be used to lend to members for additional income generation or for reinvestment in group business.
World Food Program	Food for Work Program	Construction employment for food	Amhara – 20 food insecure woredas	1999- 2001		

## ANNEX E

### List of Persons Interviewed

Name	Position	Organization	Location	Telephone /FAX	E-mail
Gebremeskel Dessalegn	National Expert	European Food Security Network RESAL	Addis Ababa	01- 61-41-22 (T) 01- 61-26-55 (F)	<a href="mailto:Resaleth@telecom.net.et">Resaleth@telecom.net.et</a>
Franco Conzato Kurt Cornelius	Economic Advisor Economic Advisor	European Union, Delegation in Ethiopia	Addis Ababa	01-61-25-11 (T) 01-61-28-77 (F)	European.union@telecom.net.et
Bernd Schirrmann PhD	Project Manager	GTZ, Micro and Small Enterprise Development Programme	Addis Ababa	01-67-33-13 (T)	<a href="mailto:MSE-PRO@telecom.net.et">MSE-PRO@telecom.net.et</a>
Abebe Negash	General Manager	Federal Micro and Small Enterprise Development Agency FEMSEDA	Addis Ababa	01-51-11-22 (T) 01-62-26-69 (F)	
Ms. Kibre Dawit	Managing Director	African Village Financial Services Share Company	Addis Ababa	01-20-16-83 (T) 710259 (T) 01-65-22-80 (F)	<a href="mailto:avfs@telecom.net.et">avfs@telecom.net.et</a>
Leslie Mitchell	Co-Director	PACT Ethiopia	Addis Ababa	01-61-59-63 (T) 01-61-68-00 (F)	<a href="mailto:pact.eth@telecom.net.et">pact.eth@telecom.net.et</a> <a href="http://www.pactworld.org">www.pactworld.org</a>
Tsehay Tsegaye	General Manager	Specialized Financial & Promotional Institution	Addis Ababa	01-61-48-04(T/F)	<a href="mailto:sfpi@telecom.net.et">sfpi@telecom.net.et</a>
Dr. Wolday Amha	Executive Director	Association of Ethiopian Micro- Finance Institutions AEMFI	Addis Ababa	01-50-38-29 (T) 01-50-38-30 (F)	<a href="mailto:aemfi@telecom.net.et">aemfi@telecom.net.et</a>
Kurt Rockeman Fitsum Gebrewold	Dir. of Agriculture Aid Management Specialist	USAID/Ethiopia	Addis Ababa	01-51-00-88 (T) 01-51-00-43 (F)	<a href="mailto:Krockeman@usaid.gov">Krockeman@usaid.gov</a> <a href="mailto:Fgrebrewold@usaid.gov">Fgrebrewold@usaid.gov</a>
Shumiye Abuhay	Non-Farm Income Generating Projects Coordinator & Economic & Social Projects Team Leader	Food Security Coordination Office Amhara Region	Bahir Dar	08-20-42-50 (T) 08-20-46-03 (H)	
Tamiru Sebisibil	Agriculture and Natural Resources Projects Team Leader	Food Security Coordination Office Amhara Region	Bahir Dar	08-20-42-50 (T)	
Tadese Kassa	General Manager	Amhara Credit & Savings	Bahir Dar	08-20-16-52(T)	<a href="mailto:Acsi@telecom.net.et">Acsi@telecom.net.et</a>



## ANNEX E

T. Fantahu Etiye Melsew Mseret Destaw	Sub-Branch Coordinator Sub-Branch Coordinator Accountant Cashier & Savings Officer	Institution Share Company	Ebinat Dabat Dabat	08-20-17-33 (F)	
Tesfaye Melaku	Industry Development & Trade Promotion Department Head	Bureau of Trade & Industry	Bahir Dar	08-20-10-28 (T) 08-20-13-72 (T)	
Yonas Gedamu	Executive Director	Organization for Rehabilitation and Development in Amhara ORDA	Bahir Dar	08-20-09-85 (T) 08-20-09-87 (F)	<a href="mailto:Orda@telecom.net.et">Orda@telecom.net.et</a>
Wondifraw Teshome	Center Head	Rural Technology Product Center	Bahir Dar	08-20-12-88	
Ato Yirgalem G Egziabher	MED Program Coordinator	Bureau of Trade and Industry	Bahir Dar	08-20-10-89	
Chekol Walelign	Training Department Head	Amhara Development Association ADA	Bahir Dar		
Demeke Argaw	Bureau Head	Bureau of Labor and Social Affairs	Bahir Dar	08-20-04-83	
Ato Abebe Mekuria	MSE & Cottage Industry Training Head	Bureau of Education	Bahir Dar	08-20-13-00	
Kinde Asho	Cooperative Promotion Team Leader	Food Security Unit/VOCA	Bahir Dar		
	Director	Fatumatu Zehara Aid Organization	Bahir Dar		
	Director	Bahir Dar Medhanealem Orphans and Destitute Family Support & Training Center	Bahir Dar	08-20-11-23	
Mandinda Zimba	Office Chief	United Nations Volunteers in Ethiopia, UNDP	Addis Ababa	01-51-51-77	

## ANNEX E

Akililu Kebede	Center Head	Ibinat Community Skills Training Center	Ibinat		
Taddesse	Coordinator	ORDA Branch Office	Ibinat		
Shirpa Bose	UN Volunteer	Women's Enterprise Development Center	Amhara & Oromia		
	Coordinator	Canadian Physicians for Aid and Relief - CPAR	Nefas Mewcha		
Ayalew Ayele + 5 neighbors	Blacksmith/ Horticulturist Local farmers	Graduate of CSTC Lay Gayint Non-graduates	Checheho, Lay Gayint		
Tilahun Gebeye	Office Coordinator	Save Our Soils – SOS Sahel International Meket Micro Finance Institution	Meket, North Wollo		
	Trainer	Meket Education Office, Adult Education Unit	Meket, North Wollo		
	Logistics/Stores Head	Community Skills Training Center	Meket, North Wollo		
Alo Maya Ato Ayehu	Community Coord. Planning & Docum	Lutheran World Federation	Woldia, North Wollo		
Yimer Ali	NGO Coordinator	DPPC	Dessie, South Wollo		
Tadese Hailu	Project Coordinator	Dessie Street Children Project	Dessie, South Wollo	03-11-11-16	
Ato Eshetu Tecle Tsadik	Director	BOLSA Vocational Training Center	Dessie, South Wollo		
	President Vice President Trainer	Dessie Chamber of Commerce	Dessie, South Wollo		
Birhanu	Director	Rural Technology Production Center	Kombolcha		
		CONCERN Ethiopia	Kombolcha		
Mulugeta Kiros	Sub-Branch Coordinator Credit Officer	Wisdom MFI	Kamisee, North Shoa		
Ato Hagos Araya	Program Officer	World Bank Ethiopia, Rural	National	01-	

## ANNEX E

Renée Chao Beroff	Consultant	Finance Rural Finance Sector Study		CIDR (33)344427140/50 (T) 33-344429452 (F)	
Ato Abebow Alemayehu	Operations Officer Social Sector	World Bank Women's Development Initiative & Grassroots Initiative Fund	Addis Ababa	01-51-42-00 (T) 01-51-14-41	<a href="mailto:Aalemayehu@worldbank.org">Aalemayehu@worldbank.org</a>
Peter Middlebrook	Food Security Advisor	European Union Local Food Security Unit	Addis Ababa	01-61-09-12(T) 01-61-26-55	<a href="mailto:Efsu@telecom.net.et">Efsu@telecom.net.et</a>
Ggetahun Nana	A/Head Bank Supervision Division	National Bank of Ethiopia	Addis Ababa	01-51-12-26 01-51-74-30 Ext 205 (T) 01-51-45-88 (F)	
Tekalign Gedamu	Chairman & CEO	Bank of Abyssinia	Addis Ababa	01-51-41-30 (T) 01-53-06-63 (T) 01-51-04-09 (F)	<a href="mailto:Abyssinia.ceo@telecom.net.et">Abyssinia.ceo@telecom.net.et</a>
Worku Tsega	General Manager	Wisdom Micro-Financing Institution S.C.	Addis Ababa	01-61-11-85 (T) 01-61-09-51 (F)	<a href="mailto:Worku_Tsega@WVI.org">Worku_Tsega@WVI.org</a>
Solomon Yalemzwed Tesfaye Gudeta	General Manager  Credit Manager	Women Savings and Credit Association (CRS Ethiopia)	Addis Ababa	01-65-35- 93/92/91 (T)	
Aklog Laike	National Programme Officer Rural Development	Swedish International Development Agency (SIDA)	Addis Ababa	01-51-12-55 (T) 01-51-58-30 (F)	<a href="mailto:Aklog.laike@sida.se">Aklog.laike@sida.se</a>
Mengesha Hailemclekit	Project Manager	Women's Enterprise Promotion Center	Addis Ababa	01-62-05-52 (T) 01-62-04-52 (T)	

## **ANNEX F**

### **List of Documents Reviewed**

USAID/Ethiopia Strategic Objective 3, draft 4/4/00

Increased Rural Household and Productivity Program Strategic Objective Grant Agreement (SOAG) Number 663-0019 and Annex 1 Amplified Program Description for the Increase Rural Household Production and Productivity Program Strategic Objective Grant Agreement.

“Agricultural Wage Employment and Rural Non-Farm Employment in Ethiopia- Survey Results,” Ministry of Labor and Social Affairs, August 1997, Addis Ababa.

“Survey on Agricultural Wage Employment & Rural Non-Farm Activities with particular reference to Appropriate Technology for Rural Employment,” Ministry of Labor and Social Affairs, August 1997, Addis Ababa.

“Objectives, Approach, Implementation, Results and Experiences of the UN-ECA Informal Sector Project,” Kibre Dawit, UN-ECA Promotion of the Informal Sector for Development in Africa Phase II, Pilot Assistance to Ethiopia, Document No. 1, UN-ECA National Workshop, 12-13 February 1998, Addis Ababa.

“Towards a Strategy to Develop off-farm and non-farm Income Opportunities,” Proceedings of the Workshop: The Challenges of Income Diversification, Bahir Dar, 10-11 February 2000.

“Amhara Credit and Savings Institution: Observation and Recommendations,” Karl Jensen, DAI, August 1999.

“Short and Medium Term Recommendations for Improving Financial Management Information Systems for the Amhara Savings and Credit Institution (ACSI),” Richard John Pelrine, ACIDI/VOCA-Ethiopia, October 13, 1999.

“Amhara Development Association (ADA) Project Profile on Basic Skill Training in Carpentry & Masonry at Tseda And Ataye training Centers,” September, 1999, Bahir Dar.

“Review of the Performance of Industry”, Worku Gebeyehu, Paper No. 24, A Symposium for Reviewing Ethiopia’s Socio-Economic Performance 1991-1999, April 2000.

“Dynamics of Poverty in Ethiopia”, Getahun Tafesse, Paper No. 8, A Symposium for Reviewing Ethiopia’s Socio-Economic Performance 1991-1999, April 2000.

“Poverty and Welfare in Ethiopia: measurement and determinants”, Abebe Shemilis and Bereket Kebede, A Symposium for Reviewing Ethiopia’s Socio-Economic Performance 1991-1999, April 2000.

“Food Security Policies in Ethiopia,” Alem Abraha, Paper No. 14 A Symposium for Reviewing Ethiopia’s Socio-Economic Performance 1991-1999, April 2000.

## **ANNEX F**

“Employment Situation in Ethiopia,” Getachew Minas, Paper No. 31, A Symposium for Reviewing Ethiopia’s Socio-Economic Performance 1991-1999, April 2000.

“Macroeconomic Performance in post-reform Ethiopia,” Alemayehu Geda, Paper No. 5, A Symposium for Reviewing Ethiopia’s Socio-Economic Performance 1991-1999, April 2000.

“Evaluation of the Performance of the Private Sector Economy in Ethiopia,” Getachew Belay, Paper No. 17, A Symposium for Reviewing Ethiopia’s Socio-Economic Performance 1991-1999, April 2000.

“Some Aspects of Bank Reform in Ethiopia,” Alazar Dessie, Paper No. 34, A Symposium for Reviewing Ethiopia’s Socio-Economic Performance 1991-1999, April 2000.

“World Vision Ethiopia Micro-Enterprise Development Operation Manual,” RDMD, December 1996, Addis Ababa.

## **ANNEX G**

### **The Market Demand Process (MDP) ®** Raymond A. Manoff, Weidemann Associates, Inc.

Development donors have, at times, leveraged the participation of the commercial marketplace to further specific development objectives. Cooperative activity with the commercial sector has been useful in dealing within the issues of unemployment and underemployment. The donor/private sector relationships are generally cost-shared to reach both development and commercial objectives. Donors that allow this synergy generally realize improved economic conditions for national clients. The Market-Demand Process (MDP) approach is a structured process that brings the public and private sector together and allows a benign employment of market-place strength to generate new enterprise and employment.

#### **MDP - Purpose and Description**

The Market Demand Process (MDP) affirmatively supports economic development through the generation of new products and services that are able to penetrate rewarding markets. MDP generates and sustains useful new enterprise and employment. MDP is particularly well suited to the penetration of unrealized export markets.

Entry into serious new markets by non-traditional producers is the general objective of an MDP effort. The MDP process routinely requires the identification of specific market interest and market entry opportunity *before* the actual delivery of product development and marketing actions. This requirement reflects general commercial practice.

#### **MDP Background**

The MDP approach is a characteristic of commerce and industry within industrially developed environments. This discipline has been consistently present throughout recorded history. May millennia past, antique cultures carried flint points to nearby neighbors to trade for honey or shellfish. These people knew all about market-demand. They carried flint points with purpose. Phoenician and Asian traders of several millennia past were also very well informed about the precise demands of their far-away clients. They loaded their ships and caravans with knowing selectivity. These early “market-demand” traders knew what a distant market wanted. They avoided commercial risk by paying close attention to actual client demand. And they prospered. This same time-tested process, albeit expressed in a more sophisticated fashion, is at the core of instruction for contemporary “MBA” graduates.

#### **MDP and Development Activities.**

The delivery of MDP is technically disciplined. Whether used by multi-national corporations or by development donors, MDP actions are structured to deliver enterprise development.

The private sector use of the process requires results that are expressed in delivery volumes and profits realized.

Donor agency use of MDP does not ignore these issues but must additionally assure the delivery of positive sustainable benefits for client-beneficiaries.

MDP early identifies specific constraints to effective commerce. This data involves a spectrum of issues and is concerned with fiscal, regulatory, environmental, infrastructure, and resource issues. This information is valuable to the ongoing development of the commercial and industrial policy needed to sustain area economic stability and growth.

### **The MDP Players - The” Entrepreneur” (MDP Strategist) and The “Product Developer”**

The **entrepreneur** is the indispensable creative force that drives world commerce. Generally seeking a profitable outcome, the entrepreneur “puts together” the resources needed to fashion a product or service that will successfully penetrate an identified market. The presence of the entrepreneur has a constant and critical presence within all economies.

#### **The MDP “entrepreneur” Strategist**

The MDP **Strategist** is also a practiced **entrepreneur**. The Strategist has a commercial work history and direct or indirect access to specific markets. She/he is practiced in product development discipline and market protocol. The MDP Strategist differs from the commercial entrepreneur only in consideration of profit participation. The Strategist is focused on the interests of project clients.

#### **The Product Developer**

Sometimes confused with “designer”, the Product Developer is much more. This creator of products is professionally trained to follow market direction. She/he routinely provides design, engineering, research, costing, pricing, environmental issue evaluations, worker safety oversight, production training, business management training among still other attention to producer needs. The Product Developer and the Strategist are together key to market-demand led income generation.

### **The MDP Process Follows Four Basic Steps**

#### **STEP I - The Diagnostic -**

This opening effort is an “entrepreneurial” field examination of existing human and natural resources as well as a look at relevant commercial infrastructure. This work is delivered with awareness of likely national or international market interest for what is or what could be produced in the area. An attempt is made to “match” real and/or potential producer assets to existing (*company specific*) market opportunity. The **diagnostic** allows close interaction with government planners, national economists and business leaders as well as with commerce and industry associations. The **diagnostic** is delivered by a MDP Strategist or, as indicated, by a Strategist Team. In those cases where the uses of both manufacturing and agricultural issues are considered, a Strategist Team may be appropriate. The **diagnostic** may include experimental product development efforts. Sample production may be required to qualify producer skills and capacities and to *identify production and commercial support constraints*. Sample production should not be confused with the follow-on product development that will be needed for commercial production for market delivery.

#### **STEP II- MDP and the Marketplace - “The Buyers”**

Step I identifies possible producer opportunity. This effort is followed by the *identification of interested*

*buyers* who will agree to commercially participate in product development and purchasing. Step 11 manages risk to both producers and development sponsors by early identifying the specific purchasers who will agree to provide the markets and payments that allow sustained producer operations. Step II assures cost-sharing and buyer commitment..

- MDP Strategists have working relationships within a variety of markets and with specific companies.. These relationships are catalytic. They bridge the interests of buyers and sellers. Buyers provide *market demand* and the production data needed for effective market entry. FOB/CIF pricing; packing and packaging; specific design needs and finishing are among other technical data needed by would-be producers to enter new markets. .

### **STEP III- Product Development**

With *market interest established*, product developers are recruited and assigned to develop the *specific* products that are identified by the market. These technicians, generally working with local counterparts-in-training, deliver the skills training and production startup processes that will allow a successful penetration of commercial windows of opportunity. The product developers are practiced professionals committed to bringing a product effectively to market. It should be clear that professional product developers are intently focused on satisfying the needs of the *buyers* as well as the producers. Product Development practices include:

- Product and Packaging Design
- Natural Resource Evaluation (and Environmental Use Analysis)
- Production Technique Development
- Producer Training
- Worker Health and Safety
- Costing and Pricing Support
- Management and Leadership Training
- Quality Control Systems - Design and Installation
- Timely Delivery and Costs and Price Management Training
- Commercial Infrastructure Support - Identification and Development
- Gender Issues Response - Women and Children in the Work-Place
- Access to Producer Credits including Pre-shipment Producer Credit

### **STEP IV- Entrepreneurial Strengthening and Phase-Out**

MDP actions result in new producer operations. MDP support actions are delivered over a fixed-term and to be phased down in favor of independent local management. This takeover occurs as the producers supported by local business services have learned to continue market-demand relationships with newly established national and international buyers.





## **Annex H**

### **Feasibility of Potential Micro and Small Enterprises in the Amhara Region Amhara Regional Strategy Statement**